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SINO-SOVIET ASSISTANCE TO UNDERDEVELOPED AREAS:

ANALYSIS AND PROGNOSIS

-Intrabloc-

By Klaus Billerbeck

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## FOREWORD

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ANALYSIS AND PROGNOSIS

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[Following is the translation of parts of the monograph Die Auslandshilfe des Ostblocks fuer die Entwicklungs-laender (English version above), by Klaus Billerbeck; Verlag Weltarchiv GMBH (World Archives Press, Inc.), Hamburg, 1960, pages 23-87 and 114-116.]

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## Analysis

Although the preparations for the beginning of political, economic and cultural relations with the underdeveloped countries had been very intensive, the Soviet Union was naturally not in a position to start comprehensive activities in all underdeveloped areas and in all areas of foreign aid in 1953 -- the year of the actual beginning of the Soviet programs for underdeveloped nations. Rather, it was typical of the years 1953-1956 that the Soviet Union (and gradually also the other countries of the Communist bloc) experimented a great deal with their relations to the underdeveloped areas and restricted their activities to only a few of those areas. The Soviet program revealed itself in its full dimensions only in the years 1958-1959. It would certainly be fruitful to examine the historical development of foreign aid by the Communist bloc since its establishment some seven years ago. However, a factual analysis seems preferable to a chronological description, since the former is better suited to reflect the character of Eastern foreign aid. This report will, therefore, examine the three main areas of foreign aid by the Communist bloc, i.e., economic, technical and military. Further, it will touch upon some of the typical methods used by the Communist bloc insofar as these concern all three areas of aid.

But it is first necessary to give a brief review of the fundamental problems and methods of foreign trade with the underdeveloped countries. As previously mentioned, the foreign aid of the Communist bloc is connected with foreign trade to a far greater extent than the foreign-aid programs of the Western industrial nations. The readiness of the Communist bloc to receive the raw materials of the underdeveloped nations on the basis of bilateral and long-term contracts must, furthermore, be considered as a part of the Soviet foreign aid programs. Thus, it is useful to include foreign trade in the present considerations. A statistical analysis of the foreign trade of the various countries in the Communist bloc with the underdeveloped areas according to country, values, quantities and goods would, however, go beyond the scope of the present report without contributing any significant insights to our analysis. We shall, therefore, restrict ourselves, aside from listing the important references on foreign trade, to noting the most important, overall figures which reflect the extent of the growth of foreign trade between the Communist bloc and the underdeveloped areas during recent years. However, the nature of this foreign trade must be

considered in greater detail, i.e., the role foreign trade has played in the relations to the underdeveloped areas.

In the beginning of political and economic relations with underdeveloped areas, foreign trade plays a far greater role than foreign aid. Since there was practically no trade between the underdeveloped areas and the Communist bloc until the beginning of the 1950's, the agreements concerning mutual trade must generally be considered the first step. In this, the Communist countries often took advantage of a particular state of need obtaining at that time in the underdeveloped country. This state of need usually consisted in a lack of markets for the underdeveloped country's most important export products. Thus, while the Communist countries officially promise to buy the export products of the given underdeveloped country in greater quantities and at favorable prices, the authorities in the underdeveloped country see a solution of their prevailing economic problems through the beginning or the increase of trade relations with the Communist bloc. Trade delegations are then exchanged in rapid succession. Even this first stage of negotiations is usually surrounded by comprehensive propaganda. Delegation after delegation from the various Communist countries travels to the particular underdeveloped country, often at intervals of only a few weeks or months. Each of these delegations precipitates intensive propaganda in the press and radio. This propaganda increases more and more, reaching its climax with the conclusion of the trade agreement. The trade agreement itself often causes surprise by its quotations of generous figures connected with the intended exchange of goods which, more often than not, particularly in the first years, would only be realized to a small extent. It is possible to give several examples for this from the last five to six years (e.g., the mere partial fulfillment of the trade agreements between the Soviet Union and Burma, Egypt and Argentina). Irrespective of the form or extent to which the trade agreement is realized, the propaganda value of the agreements is normally so great that the Communist countries thereby have entered strongly the public consciousness of the underdeveloped country. Thus, from the beginning the Communist bloc establishes very favorable conditions for a further increase in relations, ensuring that a succeeding credit offer on the part of the Communist bloc falls on fertile ground. Often the public even gains the impression that the particular trade agreement enlarges the economic possibilities of the country considerably. In contrast, there is little public mention of the trade agreements concluded between the underdeveloped countries and the Western industrial nations, since trade relations between these countries have already existed for decades.

Closer relations are generally established following the introduction of trade agreements, even with those underdeveloped countries which for one reason or another had no diplomatic exchange with the Communist bloc. This method is not only used by East

Germany, which endeavors to achieve diplomatic recognition gradually via the avenue of trade relations; the other countries in the Communist bloc also employ trade to a far greater extent than the Western nations to achieve political goals. The trade relations between the Soviet Union and Brazil furnish a good example.

Brazil discontinued diplomatic relations with the Soviet Union for political reasons more than a decade ago. Trade relations were begun gradually, however, in the middle of the 1950's on the initiative of the USSR. A barter agreement involving coffee against oil was concluded to mutual satisfaction in 1958. A trade agreement was negotiated at the end of 1959 to exchange goods in the amount of 25 million dollars during 1960. According to Radio Moscow, this exchange is to increase to 37 million dollars in 1961 and 45 million dollars in 1962 on both sides. At this time, the trading is restricted in the main to an exchange of coffee against oil and oil products. It was also mentioned during the negotiations, however, that in addition to coffee Brazil is also to deliver cotton, vegetable oil, canned goods and even electric motors, while the Soviet Union, in addition to wheat, is also to export machines and particularly drilling equipment for the oil industry. This agreement has left a great impression on the Brazilian public, particularly since about 500,000 bags of coffee are to be shipped immediately from the large surplus held in storage. In view of the sinking coffee prices, the agreement is thus of great propaganda value although 500,000 bags is of little consequence when compared to the total Brazilian coffee production. But the way is cleared for a gradual rapprochement between Brazil and the Soviet Union and for the resumption of diplomatic relations in the foreseeable future.

#### Development of Trade

No aspect of the relations between the Communist bloc and the underdeveloped areas has undergone such an impressive expansion as export trade. This export trade was practically of no significance -- aside from a few special cases -- as late as the beginning of the 1950's. The expansion beginning in 1959-1954 [see Note] constitutes therefore a new element in world trade that affected exclusively the export trade of the underdeveloped areas. Characteristic of this development is the increase in export trade of the Soviet Union with the underdeveloped areas, which tripled itself in the years 1955-1958 alone (from about 1.2 billion rubles to about 3.7 billion rubles). Trade with the Asian underdeveloped areas was quadrupled during the same time (from .5 billion rubles to 2 billion rubles.) The exchange of goods with the African underdeveloped countries rose from 190 million rubles to 890 million rubles, while trade with the Latin American countries was reduced from 400 million rubles to 316 million rubles.

It is significant that Soviet export trade with Europe (excluding Communist Countries) increased only by a third during the same time span.

([Note:] For a statistical analysis of the export trade between the Communist bloc and the underdeveloped areas, the following references may be used in addition to the export statistics of the respective underdeveloped countries: V. P. Goryunov, N. N. Inozemtsev, B. V. Spandaryan, et al., Vneshnyaya trgovl'ya SSSR so stranami Aziy, Afriki i Latinskoy Ameriki (Foreign Trade of the USSR with the Countries of Asia, Africa and Latin America), Ministry of Foreign Trade USSR, 1958; Vneshnyaya trgovl'ya SSSR, 1956-1959 (USSR Foreign Trade, 1956-1959); Statistisches Jahrbuch der Deutschen Demokratischen Republik (Statistical Yearbook of the German Democratic Republic, Berlin, 1956; Handel Zagraniczny (Foreign Trade), Warsaw; Statistieke Ypravy, Prague; Statisticka rocenka Republiky Ceskoslovenske, Prague; Statisztikal Havi Kozlemenye, Budapest, 1959; Yearbook of International Trade Statistics, UN, New York; and Direction of International Trade -- Statistical Papers, Series T - UN, New York.)

The Eastern European countries have also increased considerably their trade with the underdeveloped areas in recent years. For example, the export trade of Czechoslovakia with the underdeveloped areas increased from 140 million dollars in 1954 to about 270 million dollars in 1957; for Poland (70 million dollars in 1954, 170 million dollars in 1958); Hungary (about 44 million dollars in 1954 to about 85 million dollars in 1957). Thus, for Poland and Hungary a doubling of export trade with the underdeveloped areas resulted. Particularly impressive is the increase of export shipments by East Germany to the underdeveloped areas (from 36 million dollars in 1954 to 206 million dollars in 1958). Red China was also able to increase its shipments to underdeveloped areas considerably; from 190 million dollars in 1954 to about 345 million dollars in 1957. The share of the underdeveloped areas in the total export trade of the Communist countries between 1954 and 1958 increased even more. During this interval, this share increased for the USSR from 4.6 to 10.9%, for East Germany from 1.7 to 6.7% and for Poland from 4.0 to 7.4%.

The significance of the various countries in the Communist bloc within the framework of export trade with the underdeveloped areas is, however, rather varied. While the USSR occupies a commanding position within the foreign aid program of the Communist bloc, i.e., with respect to financial, technical and military aid, the Eastern European countries and Red China have a relatively large share in the trade of the Communist bloc with the underdeveloped areas. The export volume of the USSR with underdeveloped countries reached about 850 million dollars in 1957; the Eastern European countries achieved in the same year a volume of about 700 million dollars,



and Red China about 345 million dollars. This relationship has changed further in favor of the Eastern European countries during 1958. A particularly strong position within the framework of trade with underdeveloped areas is occupied by Czechoslovakia, whose sales amount to almost a third of the trade of the USSR. Eastern Germany has similarly expanded its trade with underdeveloped areas, and she will probably reach the export volume of Czechoslovakia in a short while.

It is noteworthy that, contrary to generally current impressions, not only machines and equipment play a role in the export trade of the Communist bloc but also a whole series of other products. The export of machines and equipment by the USSR to underdeveloped areas in 1958 was only 45% of total export volume. However, it must be noted here that this share increased from 6 to 45% during 1955-1958. Among the other export goods are particularly to be mentioned mining products and products of the metal industry, food stuffs, lumber, paper, as well as textiles.

Another peculiarity of the trade between the Communist bloc and underdeveloped areas lies in the fact that the predominant part of the trade is done with only a few of the underdeveloped countries. Just as the foreign-aid program of the Communist bloc has its points of emphasis, so is the foreign trade of the Communist bloc concentrated in certain areas. In 1958, almost 75% of the export trade of the USSR was conducted with only five of the underdeveloped nations; namely the UAR (United Arab Republic), India, Yugoslavia, Iran and Malaya. The UAR and India alone accounted for 40% of Soviet export volume with underdeveloped areas. The export trade of Red China with underdeveloped areas was, in 1957, 80% with the UAR, Ceylong, Indonesia, Malaya and Pakistan. Such concentrations are also found when considering the east European countries. Almost two thirds of the trade of East Germany in 1958 was with only three underdeveloped countries (Yugoslavia, Turkey and the UAR); almost 80% of Polish export trade was with four underdeveloped countries (Brazil, UAR, Yugoslavia, and Turkey); almost 88% of Czechoslovakian trade with six underdeveloped countries (UAR, Brazil, Yugoslavia, Turkey, India, and Burma); and almost 70% of Hungarian trade with only two underdeveloped countries (Yugoslavia and the UAR).

The same applies to the share of the Communist bloc in the total trade of the underdeveloped nations (all figures are for 1958). In some underdeveloped countries this share is extraordinarily high. Thus, Afghanistan's trade is presently conducted to almost 50% with the Communist bloc; in Egypt, 44% of exports and 29% of imports are with the Communist bloc; in Syria 32% and 15% respectively. For Turkey the share of trade with the Communist bloc is 20%, for Burma 10%. This share is considerably lower in the other underdeveloped countries, e.g., Iran (5.5), India (5.1), Indonesia (7.4), Morocco (5.0), Argentina (2.2), and Brazil (3.9). The discontinuity of Communist-bloc trade is often also evident in these shares. Thus

the share of Uruguay rose from 4.4% in 1957 to 13.0% in 1958 while for Argentina there was a reduction from 9.4% (1955) to 2.2% (1958); similarly for Burma (1955: 17.9%; 1958: 10.4%).

### Organization and Conduct

The export trade of the Communist bloc is organized according to the principles of a centrally directed, planned economy just as the other spheres of economic activity. The various foreign-trade ministries are responsible for the coordination of time schedules and for the supervision of export and import plans. They conclude all trade contracts and agreements with foreign countries. Through the Council for Economic Mutual Aid (CEMA), whose members consist of all East European countries as well as the USSR, an effort is made to integrate foreign trade and, particularly, to achieve standardization of foreign-trade procedures. This task is also pursued by the various foreign-trade ministries. The execution of individual transactions is assigned to state-owned foreign-trade agencies, which generally execute all transactions in a given field or for a given kind of product. According to our investigations [see Note], there are about 20 such foreign trade agencies in the USSR which usually conduct both importing and exporting.

([Note:] See the following journals: Bulgarian Foreign Trade, Bulgarian Chamber of Commerce, Sofia; Foreign Trade of the People's Republic of China, the China Committee for the Promotion of International Trade, Peking; Deutsche Export (German Export), Council for Foreign Trade of the German Democratic Republic, Berlin; Polish Foreign Trade, Polish Export Council, Warsaw; Rumanian Foreign Trade, Chamber of Commerce of the Rumanian People's Republic, Bucharest; Czechoslovakian Foreign Trade, Czechoslovakian Chamber of Commerce, Prague; Vneshnyaya Torgovl'ya (Foreign Trade), Moscow; and Hungarian Foreign Trade, Journal of the Hungarian Chamber of Commerce, Budapest.)

There are about 16 such agencies in Red China, 13 in Bulgaria, 2 in Albania, about 30 in Poland, about 25 in Czechoslovakia, 14 in Rumania, and about 20 in East Germany. Despite their legal independence, these organizations are strictly controlled by the respective foreign-trade ministries, which supervise all transactions. The formal framework for the activities of the foreign-trade agencies is provided by the trade and payment agreements with the underdeveloped countries. The agencies, however, do not possess general authority to conclude contracts on the basis of the agreed-upon exchange of goods. Authorization for the signing of contracts must in each case be sought from the foreign-trade ministry. In import transactions, this authorization is given only when the necessary foreign exchange has been secured to cover the import transaction. It is pointed out

here that this clearcut organization of foreign trade in all Communist-bloc countries is often perceived as an advantage by the relevant authorities in the underdeveloped areas.

The trade and payment agreements constitute the basis of trade with underdeveloped countries. They all have a bilateral character and are written according to standard politico-economic principles. As a rule, detailed inventories of goods are appended to the agreements which then form the basis for the exchange of goods. Transactions may, however, also be concluded outside these lists. Thus, it is written in the trade agreement between the USSR and Cambodia, dated 31 May, 1957: "That agreements concerning goods from the USSR or Cambodia which are not entered in lists A and B may be made in good faith by the responsible authorities of the two governments." The agreements concerning payments are simply agreements concerning foreign-exchange matters, i.e., the mutual shipments of goods are accounted for within the accounts established by the government banks so that an agreed-upon margin will meet the seasonal fluctuations in imports and exports. The extent of the margin is laid down in general in the trade agreement. Thus, the relevant section of the agreement between the USSR and Greece of 21 July 1958 reads: "The balance of the account mentioned in Article 4 of the present agreement must not exceed 4 million dollars in favor of one or the other party."

The predominant part of external trade of the Communist bloc countries with the underdeveloped nations is transacted in this manner. In order to fulfill its obligations with the underdeveloped areas, the Communist bloc is often forced to import goods which cannot be utilized within its own economy. Various Communist countries, particularly Czechoslovakia, therefore, act as intermediaries. A part of the goods imported from underdeveloped areas is then sold to countries outside the Communist bloc, whereby considerable reductions in price must often be reckoned with. Such transactions have been perfected in recent years to such an extent that shipments are often made directly from the underdeveloped country to the final buyer. This applies, for example, to Egyptian cotton which Czechoslovakia sold to Western Europe, and to Burmese rice which Red China sold to Ceylong. Such transactions are advantageous for the Communist bloc in that it can meet its obligations with the underdeveloped countries and obtain at the same time -- if with a reduction in price -- foreign exchange which can be used for purchases on all world markets. These procedures, furthermore, increase the dependency of the underdeveloped areas on the Communist bloc. A certain role is also played by transit shipments. Thus, such countries as South Korea, Vietnam and the Philippines have hardly any direct trade with the Communist bloc. They, nevertheless receive goods via Hongkong, particularly from Red China.

### A Model: the Trading Methods of Czechoslovakia

As mentioned previously, the countries of the Communist bloc are not equal in their proficiency in using commercial means for political ends. There are considerable differences between the countries of the Communist bloc with respect to their proficiency in carrying out individual transactions, in their ability to keep delivery dates, etc. The South East Asia countries that do business with the Communist bloc have noted that trade relations are most reliably carried out with Communist China. Although the Chinese foreign trade agencies drive a hard bargain during trade negotiations, they fulfill their obligations punctually and precisely once they have agreed to do so. In this, the Chinese agencies have the advantage that a great part of the international and local trade in the South East Asia Countries is handled by local Chinese traders (see Note). Czechoslovakia is considered the best and most reliable trading partner in the other Asiatic and African areas, while the foreign trade agencies of the Soviet Union have already often left a poor impression. But the Communist bloc countries have made efforts, particularly in recent years, to remove gradually the numerous errors and mishaps. In this effort, Czechoslovakia serves as a model, since she exported machines and industrial equipment in large quantities already before the Second World War. The business methods of the Czechoslovak foreign-trade agencies used in the sale of their industrial products in underdeveloped areas are considered ideal examples by the other Communist bloc countries. The trade magazines of the Communist bloc repeatedly publish comprehensive reports detailing the experiences of the Czechoslovak organizations. It is appropriate, therefore, to consider briefly the methods of the Czechoslovak foreign trade organizations in this report (for a comprehensive report see Pusenko, N. "The Organization of the Czechoslovak Export of Industrial Equipment to Underdeveloped Areas," Vneshnyaya Torgov'lya, Moscow, 1959, Vol 29, No 9).

([Note:] It is impossible to predict how long this advantage will continue to exist for Chinese foreign trade. Indonesia has already begun to restrict severely the rights of the Chinese minority. It is possible that other underdeveloped countries might follow this example.)

The share of machines and industrial equipment in the total export of Czechoslovakia has risen from 6.4% in 1937 to 43% in 1958. Almost 75% of these machines and industrial equipment are exported to underdeveloped areas, particularly complete hydro-electric power installations, equipment for the production of machines, for the distillation of crude oil, for cement, sugar, rubber, shoe, textile, and ceramics factories, for broadcasting stations, installations for the concentration of iron ore and coal, etc. Also sold abroad

metal-cutting machines, forging presses, diesel engines, textile machines, road building equipment, rolling stock for railways, automobiles, motorbicycles, tractors and agricultural machines. The export of these machines and installations is predominantly handled by the foreign-trade agencies "Stroy-export," "Technoexport," "Motokov," and "Kovo." These agencies maintain permanent trade delegations in many underdeveloped countries to observe markets, participate in advertising, arbitrate disputes, and particularly to supervise the activities of the local agents which carry out the actual sale or disposition of the Czechoslovak goods.

The greatest part of Czechoslovak goods is sold in underdeveloped countries via these local agents, a procedure already used before World War II. The introduction of the foreign-trade monopolies led to a concentration of the largest and most experienced of the trading firms in the underdeveloped areas. In the last six years, the Czechoslovak foreign trade agencies have worked intensively at enlarging their net of local agents. The choice of firms to serve as agents is made very carefully. The financial and technical capabilities of the agents is hereby of particular interest. The Czechoslovak trade delegation in the particular country, the Czechoslovak Chamber of Commerce, and the immediate customers of the agent under consideration are consulted in making a choice. Banks and credit bureaus may also be asked for information. After a short-term trial contract, a contract is signed with the agent in which the latter may function as an agent on commission or as principal. If the local firm functions as principal, the contract contains a clause obligating the local firm to refrain from setting excessively high prices for the machines and equipment. The agent is further obligated to report continuously on the prices of the machines sold by him. In general, however, contracts on a commission basis are signed allowing the foreign-trade agencies to set the price themselves. Commissions run from 2.5 to 10%. In exceptional cases, e.g., when a machine is introduced to a new market, payment of a particularly high commission may be arranged. To avoid having the agent represent simultaneously a Czechoslovak foreign-trade agency and a competing firm in the same business, the contracts contain clauses allowing the foreign-trade agencies to break the contract if the local agent begins to work for a competing firm. The contracts also contain clauses concerning a minimum rate of turnover.

The foreign-trade organizations endeavor to leave all work concerned with the actual sale to the local agent. In the first years, the local agent would transmit all inquiries to the foreign-trade organization, which also worked out the offers. Today, most local agents negotiate with customers themselves and merely arrange delivery dates with the foreign-trade organizations. The agent receives his guaranteed minimum commission of an average of 2% even when a customer turns directly to the foreign-trade organization with a large order. The local agents are obligated to inform the foreign-

trade organizations constantly concerning the situation on the machine and equipment markets in the particular underdeveloped country. They are also obligated to advertise the Czechoslovak goods, splitting the cost with the foreign-trade agencies. Emphasis is placed on the ability of the local agent to rent facilities for demonstration and exhibition of goods at the busiest points in the cities of the underdeveloped countries. Usually, special arrangements are made to that effect. Great care is also taken in training the personnel of the local agent in technical matters. Such training is carried out in Czechoslovakia whenever possible. Thus, the salesmen are made familiar with the technical characteristics of the construction and servicing of the machines. Under certain circumstances, salesmen have also made suggestions for improvement which in some cases have led to improvements in quality and to a reduction in construction and installation time.

The foreign-trade organizations furnish specialists for the support of the firms in the underdeveloped country. These specialists either work in the commercial sections of the Czechoslovak delegation or in the so-called "offices for technical services." They are prepared to assist with the conclusion of contracts, the running of exhibitions, and advising customers; they supervise the training of the local service personnel, assist the local firms in rendering technical services, in installing depots for parts, in preparing technical-information material, etc.

The Czechoslovak foreign-trade agencies' efforts in intensive advertising are by no means inferior to corresponding efforts by private Western firms. The demonstration of machines and equipment, usually supplemented by a lecture and the showing of a film, is frequently undertaken. Advertising material is jointly prepared by the foreign-trade agencies and the sales and export departments of the manufacturer, although actual writing of copy is done by the Chamber of Commerce. All possible advertising media are employed; advertisements and articles in foreign newspapers and magazines, radio commercials, photographs and slides, advertising films, outdoor advertising along highways and on houses, neon signs, etc. Aside from catalogs and other advertising materials, there are a number of illustrated magazines published in Czechoslovakia which carry advertising for Czechoslovak machine products. For example, the magazine Czechoslovak Export Trade contains information in four languages on all Czechoslovak export products. The monthly magazines Czechoslovak Heavy Industry and Kovoexport publish information about the products of the metal-working industry.

### Advantages for the Underdeveloped Countries

Does trade with the Communist bloc offer significant advantages to underdeveloped countries in comparison to trading with the Western industrial countries? This question must be answered positively in view of the rapidly expanding exchange of goods, particularly in the last six years. The real reason for the growth of trade relations must be sought in the willingness of the Communist bloc to buy the raw materials of the underdeveloped countries at a time when the market conditions for these export goods were particularly unfavorable for the underdeveloped countries. The classical example is the export of Egyptian cotton to the Communist bloc which amounted to almost 60% of the total cotton exports of Egypt in 1958. The purchasing of large quantities of raw materials, which is perceived by the underdeveloped country as additional exports, constitutes the basis of trade relations between the Communist bloc and the underdeveloped areas. Since these exports are handled on the basis of contracts lasting for several years and in the beginning sometimes also at relatively favorable prices, the underdeveloped countries must perceive the introduction of trade relations with the Communist bloc as a significant advantage. These countries believe above all that the obligations assumed by the Communist bloc regarding price and quantity possess a far greater stability than the contracts made with private firms of the Western industrial countries. Such an impression, however, is largely false as will be shown later in this report. It is important in this connection, though, to note that the Communist bloc has bought great quantities of export products in times of great need for the underdeveloped countries.

As mentioned previously, the clear-cut organization of foreign trade in the Communist bloc is perceived by many underdeveloped countries as an advantage over the more diffused organization of foreign trade in the Western industrial countries. This applies particularly to the imports from the Communist bloc or to the exports of the underdeveloped countries. In most underdeveloped countries today the export of the most important products is handled centrally by governmental or semi-governmental organizations which naturally prefer to deal with similarly centrally directed purchasing agencies.

The steadily growing direct purchases of the Communist bloc from the underdeveloped countries is especially welcomed by the latter. Up to the present, the countries of the Communist bloc still buy a considerable part of their raw material needs on the relevant world markets. Thus, the Soviet Union still buys the greatest part of its rubber needs on the London market. But in the last few years some changes are noticeable in this trend. The Communist bloc is increasingly turning directly to the underdeveloped countries for purchases of raw materials. This is especially true for the underdeveloped countries that have just gained their political independence.

In the future, the Communist bloc will -- as soon as an underdeveloped area has become independent -- restrict its purchases from the markets of the former mother country in favor of direct buying from the particular underdeveloped country. This method allows for considerable propaganda successes, since public opinion in the underdeveloped nation is easily led to believe that the Communist bloc is now a new customer. Direct purchasing also makes it possible for the Communist bloc to channel its exports into underdeveloped areas without being forced to furnish credits for payment of these exports.

It may be concluded that the advantages of underdeveloped countries in trading with the Communist bloc lie primarily in inability of the Western industrial nations to find a solution for the regulation of world markets satisfactory to the raw material-producing countries. If such a regulation could ever be achieved, the aforementioned advantages would disappear.

#### Disadvantages of Bilateral Trading

The authorities in underdeveloped countries responsible for export trade are generally aware that it is actually rather unsatisfactory to conduct foreign trade by means of bilateral contracts. Most underdeveloped nations, therefore, look upon bilateral transactions as a temporary solution which must be followed as long as the world-market situation or the foreign-exchange situation forces them to a temporary solution. Bilateral agreements are really not restricted to trade relations with the Communist bloc; they are also made with other countries, e.g., Israel and Japan. It is, therefore, superfluous to emphasize that the readiness of underdeveloped areas to conclude bilateral transactions implies an acceptance of the economic policies or the political principles of the Communist bloc.

The underdeveloped nations have quickly grasped that while bilateral and long-term agreements are accompanied by certain advantages, there are also considerable disadvantages connected with this mode of trading. According to experience, bilateral commerce between the Communist bloc and the underdeveloped areas has engendered few complications if such commerce is restricted to the exchange of a few goods. This, for example, was the case with the trade agreement between Communist China and Ceylon, which pertained to the exchange of Ceylon rubber against Chinese rice. But even here, considerable difficulties and disappointments arose, particularly with respect to prices; Ceylon was also dissatisfied with the slow payment of trade debts by China, the debts having occurred during the exchange activities. Bilateral trade relations become considerably more complicated when an underdeveloped country -- as was the



case of the agreement between Burma and the USSR -- exports in essence only one product (rice) to the Communist country while it wants to import from that country a variety of goods in exchange. The Burmese trade delegations found several times while in Moscow that a part of the intended purchases could not be made at all, either because the particular products could not be delivered or because their prices were too high in comparison to world-market prices. Thus, the Burmese were often forced to buy products which were not on the original list of purchases. In addition, it was found by Burma after conclusion of the first transaction that prices were often 10-15% higher than those quoted by the Western countries (the problem of price calculations will be considered in greater details below).

The underdeveloped countries perceive as a particular disadvantage also the fact that in trading with the Soviet Union it is not possible to use the balance of an account for purchasing desired goods from Czechoslovakia. Despite all efforts by the relevant authorities in the Communist countries and despite the founding of CEMA, it has not been possible to organize multilateral payment transactions within the Communist bloc. For example, an underdeveloped country possessing an account with the State Bank in Moscow cannot, in general, use this account for purchases in Poland or some other Communist country. This is particularly serious because it is often impossible to purchase desired goods at a justifiable price in the Communist country where one happens to possess an account.

The inability of the Communist bloc, furthermore, to keep its purchasing obligations without re-exporting these goods into Western countries, thus further restricting the market for the underdeveloped countries, is perceived as a serious drawback of trade with the Communist bloc. However, this applies only to those underdeveloped countries which export raw materials for which there is only a temporary or restricted market within the Communist bloc, e.g., cotton and rice. But it must not be overlooked that the Communist bloc has today already a large demand capable of further growth for certain raw materials exported by underdeveloped areas, e.g., for rubber and coconut products.

#### Lack of Continuity

A number of underdeveloped countries have had the experience in recent years that was previously had by the Western countries in trading with the Communist bloc: the absence of any continuity in the turnover of goods. The statistics of Soviet foreign trade in particular reveal almost erratic jumps in imports and exports with underdeveloped areas. Similarly, this lack of continuity in exchange of goods with the Communist bloc is evident in, for example, the Cuban export figures to the USSR or in the exports

and imports of Latin American countries, as well as in the export figures of some Southern European and South Asian underdeveloped countries. These experiences are in contradiction to the propaganda themes of the Communist bloc that -- in contrast to the Western industrial nations -- only the Communist bloc is in a position to conduct long-term and permanent trading with underdeveloped areas. Western publications concerning the trade of the Communist bloc do not sufficiently emphasize that, although the Communist bloc concludes spectacular trade agreements of a long-term nature with underdeveloped areas, the exchange volume mentioned in the agreements is achieved only in the rarest instances. A comparison of the foreign-trade statistics of the Western industrial nations and those of the Communist bloc shows that the exchange of goods between underdeveloped countries and the Western nations takes place with far greater continuity than trade with the Communist bloc. The commercial contracts, aside from a few exceptions, signed between the Communist bloc and underdeveloped countries represent largely ideal contracts. The limits of these contracts are set by the Communist countries as well as by the relevant authorities in the underdeveloped countries in such a manner that a realization of the reported volume of exchange is impossible even if the most favorable conditions prevailed. This became clearly evident during the first trade negotiations between Egypt and the USSR, and also during negotiations with Burma, which was promised purchases of a total of 750,000 tons of rice yearly, even though the most favorable year of the contract only saw one half of the amount of promised purchases. In addition, the balance of payments of Burmese Communist-bloc trade showed by the end of 1956 a credit of several million dollars with the Communist bloc in favor of Burma. Argentina experienced a similar state of affairs when, after concluding very optimistic trade agreements with Communist countries, it found itself during 1957 with large credit accounts in Communist countries which then had to be removed at considerable discounts.

#### Unfavorable Price Policies

The underdeveloped countries also perceive more and more as a great (and at the same time confusing) handicap the price policies obtaining within the framework of trade with the Communist bloc. The experiences with price policies are very similar to those made with the determination of the trading volume. The contracts reflect generally only very vague discussions regarding prices. In general, the formula is that world market prices are to be taken as the criterion. In negotiating the special contracts concerning the purchase of a single class of goods, the representatives of the Communist bloc do not show themselves at all more generous than the representatives of Western firms. On the contrary, the price negotiations

with the Communist bloc are beset by far greater difficulties than corresponding negotiations with Eastern sellers and purchasers since the price policies and the cost structure, as well as the profit calculations, of Communist countries are completely opaque. The Communist countries do not only vary their prices constantly according to the goals they wish to achieve with their actions, but also often request new negotiations to change a price that had been agreed upon only a few months ago. As the practice followed in price negotiations with various underdeveloped countries has shown, the Communist countries are in principle not prepared to make long-term price agreements.

Such experiences were had by the authorities in Egypt which, during the negotiations of the special contracts within the framework of the 175 million dollar credit of the USSR to Egypt, were suddenly confronted with the fact that the Soviet representatives either named inflated prices for the equipment to be delivered by the USSR or offered reduced prices for the Egyptian goods. This practice led the Egyptian authorities during the negotiation of special contracts to stipulate fixed prices from the very beginning. Similar experiences were had by some Southeast Asian countries in price negotiations with Red China. Red China, for example, offered Malaya rice and cement originally at very low prices only to increase these prices gradually during subsequent negotiations. The Chinese representatives also showed themselves very stubborn in trade talks with Ceylon; according to world-market prices prevailing at that time, Ceylon had to pay a relatively high price for rice from China and receive a relatively low price for its own rubber. It is believed in Indonesia also that Red China often delays the shipment of Chinese goods when prices are expected to rise on the world market so that Indonesia had to accept higher prices when the goods finally arrived. These methods of the Chinese foreign-trade agencies may be observed particularly in Hongkong, where Red China enjoys a practical monopoly on the delivery of hogs and poultry and always tries to gain additional profits by delaying shipments.

It is always extraordinarily difficult to obtain information regarding prices in conversations with the authorities in underdeveloped countries. Apparently, the responsible official try to avoid creating the impression in the public mind that unfavorable prices must often be borne in order to save their own prestige. On the other hand, it is also not possible to study the fixing of prices on the basis of information released by the Communist countries. A recently published investigation (von Gajzago, O. "Soviet Foreign Trade with Underdeveloped Areas," Vierteljahreshefte zur Wirtschaftsforschung, Berlin, 1959, 4, p. 435 ff) cautiously concludes that among Soviet imports from underdeveloped areas in almost all years those classes of goods predominate whose import price lies below the import price of the same class of goods from other than underdeveloped countries, i.e., the USSR paid the underdeveloped countries less

for these goods than it paid other countries. In the same report it is mentioned that the USSR delivered cement and window glass to underdeveloped areas at higher prices than it charged other countries. To explain these occurrences, it is mentioned that cement and window glass constitute goods which are used primarily for Soviet construction projects in underdeveloped areas. It appears that the spectacular credit offers of the Soviets to the underdeveloped countries are at least partially received at the expense of higher prices for Soviet shipments.

#### Efforts of the Communist Bloc for a Satisfactory Solution

It is characteristic of the newer developments in the trade relations between the Communist bloc and underdeveloped countries that the previously frequent complaints on part of the underdeveloped nations have become fewer and fewer. Only a few years ago, one could repeatedly hear complaints regarding the inferior quality of certain products, e.g., electrical equipment, building materials, etc., It used to be especially noted for certain technical products that they were not sufficiently adapted to local requirements. Complaints were also heard about the unreliable and tardy shipment of spare parts, and about the unwillingness of the Communist countries to employ native businessmen as agents and to allow them such privileges and discretions as are absolutely necessary -- as these agents were accustomed to enjoy from their relations with Western firms. The delays in shipments also often occupied the focal point in these criticisms. Such delays usually originated with the loading of the goods, since the Communist bloc still suffered at that time from a considerable lack of shipping space. It was, therefore, frequently necessary to transship goods at West European ports, which led to additional delays. In recent years, however, all these complaints have become considerably less frequent. The Communist countries have quite clearly made an effort to remove these drawbacks and to develop an apparatus with respect to services that can compete with corresponding facilities in the Western industrial nations.

The Communist countries have also made strong efforts in other areas to remove the causes of disappointments which many underdeveloped countries had to accept in more recent years. Thus, it may be expected that the Communist bloc will before long find a solution which will enable underdeveloped countries to use their available credits in one Communist country for purchases in another. In special cases, this was made possible already during 1959. The Communist bloc now also appears to meet its obligations toward the underdeveloped countries with respect to the consumption of imports, leading to a gradual decline of Communist re-exports. In addition, it seems to have been recognized in Communist countries

that such errors may sharply restrict the propagandistic, political and economic value of the whole Communist aid program vis-a-vis certain underdeveloped countries. A critique of Communist trade with underdeveloped areas should, therefore, not over-look that the relevant authorities in Communist countries had very little experience with foreign trade and that such experiences are carefully evaluated as soon as they become available.

### Financial Aid

As mentioned previously, a comparison of the financial aid of the Communist bloc with US foreign aid is not possible since the greatest part of US foreign aid consists of gifts. Within the framework of Communist financial aid, gifts have been made only in special cases and then only in insignificant amounts. Thus, the USSR made a present in 1954 of its exhibition pavillion valued at one million dollars to the Indonesian government. Pakistan received gratis 20,000 tons of wheat and rice after a catastrophic flood in East Pakistan. Receipts from a performance of Soviet artists in Thailand were given to the Thai government. Afghanistan received in 1955 a gift of 15 autobuses and the equipment for a 100-bed hospital from the Soviets. In 1956, the Soviet Union presented India with equipment for a large agricultural station valued at 1.5 million dollars, giving an additional \$230,000 for the same purpose in 1960. In addition, Burma, India and Ethiopia each received a twin-engine transport plane from the USSR. Cambodia and Ethiopia were promised the construction of a hospital and a school respectively; Afghanistan received gratis 40,000 tons and Yemen 10,000 tons of grain. The total value of these gifts amounts to hardly more than about 20 million dollars.

An exception is made only by Red China which has, at least formally, promised more than half of its financial aid in the form of gifts. Thus, in 1956 Red China and Cambodia signed an agreement whereby China obligated itself over the following few years to ship goods to Cambodia in the amount of 800 million riels (about 22.4 million dollars), which will be sold by the government and receipts deposited in an account from which development projects are to be financed (the government of Cambodia has incidentally also informed the USSR that it is only interested in economic aid in the form of gifts). According to the best estimates, China had shipped about 40% of the promised goods to Cambodia by the end of 1959. A similar agreement was made in 1956 with Nepal, which promised a Chinese gift of 20 million riels in cash and 40 million riels in the form of goods (a total of about 12.6 million dollars). At the end of 1959, a total of 40% of these gifts had actually been made. In 1960, Red China made another gift of 20 million dollars to Nepal. In connection with the Suez crisis, Red China also made a gift of

4.6 million dollars to Egypt, but in this case it is not clear whether the amount was not actually paid to remove trade debts. In 1957, China made a gift of 75 million riels (about 16 million dollars) to Ceylon for the improvement of Ceylonese rubber plantations. Whereas the gifts to Cambodia and Nepal were obviously made for political reasons, without any special conditions, the gift to Ceylon carried with it the stipulation that the Ceylonese government take care to ensure free entry of Chinese goods to Ceylonese markets.

The Soviet argument that gifts are not in the best interests of the underdeveloped nations is undoubtedly only propaganda. The Soviet decision to give only credits to underdeveloped countries as a matter of principle rests obviously on cold economic considerations. An aid program consisting of gifts would presumably, under present conditions, constitute a burden for the economy of the Soviet Union and Eastern Europe. No matter how favorable the interest and repayment conditions of Communist loans may be, the Communist bloc receives in every case a counter-value in the form of interest and amortization. If all the loans promised by the Communist bloc had already been made, repayments would run to 200 million dollars yearly.

A further reason for this Soviet policy must be sought in the fact that the financial aid of the Soviet Union to the other Communist countries in principle does not rest on gifts and that a more favorable arrangement toward the underdeveloped countries would necessarily be perceived as discrimination in Eastern Europe and Red China. The restriction of foreign aid by the Communist bloc to loans ensures furthermore that the extent of credit applications to the Communist bloc remains within the limits of Communist capabilities. A loan for a period of 10-15 years entails repayment obligations which can be precisely calculated. In accordance with the prevailing economic conditions in the underdeveloped countries, these repayment obligations must remain within certain limits. Such an urge for restraint in the seeking of economic aid does naturally not exist when one can receive gifts. According to Soviet thinking, gifts are also fundamentally unsuitable for forming long-term economic relations. In making gifts, the economic relations attendant thereupon are practically completed with the delivery of the goods comprising the gift, while in the case of loans economic relations continue to exist over the entire time span of repayment. And it is the goal of the aid programs of the Communist bloc to obtain possibilities for a permanent position of influence on the underdeveloped countries.

#### Conditions of Communist Bloc Loans

The legal basis of the loans made by the Communist bloc is either an independent credit agreement, e.g., the credit agreement

between the USSR and Afghanistan and Indonesia, or the relevant clauses in the agreement about economic and technical assistance, e. g., the agreement between the USSR with Syria, Egypt, India and Ceylong. With respect to the use of the loans, the agreements usually contain the following stipulations: the credit must be used as payment for machines, equipment and building materials shipped by the Communist bloc and for payment of the technical planning necessary for a given project, etc. In most cases, it is also stipulated that the costs of sending specialists or of training personnel from the underdeveloped country be paid from the loan granted. If the payment of specialists or the training of local personnel is not stipulated in the credit agreement, these costs must, as a rule, be paid from funds designated for this purpose within the over-all trade agreement, i.e., through shipments of the underdeveloped country.

Aside from the principal of the loan, which is specified either in the currency of the underdeveloped country or in the currency of the Communist country making the loan, the credit agreement also specifies the value of the principal sum in gold and the currency in which repayment of the loan is to be made. The Communist bloc secures itself in this manner against devaluation. All credit agreements contain such a gold clause.

The majority of the loans granted by the Soviet Union are made at an interest rate of 2.5%. This low interest rate in particular is one of the most important arguments in Soviet propaganda. But it is often overlooked that the East European countries especially often have asked for a higher rate of interest. Thus, agreements between Czechoslovakia and Syria and between East Germany and Syria specify rates of interest of 3-4%. In the agreement between Czechoslovakia and Argentina concerning the shipment of tractors, the rate of interest amounted to 6%. Nevertheless, the fact remains that the loans of the Communist bloc are made at more favorable interest rates than, for example, the loans of the Export-Import Bank, the World Bank or the West German private loans which are secured by Hermes (insurance) guarantees.

In an evaluation of the interest policies of the Communist bloc it must also be considered that an interest rate of 2.5% is still considerably more favorable for the Communist bloc than the granting of gifts. This interest rate is used by the USSR not only with underdeveloped countries. The loans made by the USSR to other Communist countries during the post-war period were also made at an interest rate of 2.5%. It must further be recognized that there is no basis for a simple comparison of the interest rates of the Communist bloc and those of the Western industrial nations. Decisive for the real rate of interest are the prices set for the deliveries from the Communist bloc and the shipments of the underdeveloped countries. But it is especially here that no reliable information can be obtained. Just as it is possible to set a somewhat

higher price for the shipments made within the credit agreement by the Communist bloc in favor of a lower rate of interest, so it would be theoretically possible to calculate an apparently lower rate of interest on shipments from the Western industrial nations while at the same time raising the prices for the installations to be delivered. While it is relatively easy to gain a clear picture of price conditions and interest levels in the Western countries as these apply to underdeveloped areas, there is no basis whatever for making similar calculations for the Communist bloc. Thus, it is quite possible that the low rate of interest on Communist loans is only apparent and that it is compensated for by the setting of prices for the goods shipped to and from underdeveloped areas; perhaps there is even overcompensation here. Such reasoning is also heard more and more frequently in underdeveloped countries.

A time interval of 12 years with equal yearly rates is usually set for repayment, especially of large Soviet loans; this time interval being figured from the year in which the loan is first used. The dates for the application of the loan are as follows: for the payment of installations and equipment, the date of the bill of lading; for services rendered in planning the project, the date of the invoice. Interest is calculated from the date the particular loan is taken up, the interest charges usually being paid during the first quarter of the second year after taking up the loan. The propaganda of the Communists with respect to repayment conditions is usually restricted to those contracts which have a repayment interval of 12 years or more (even more favorable conditions are contained in the agreement between the USSR and Afghanistan which stipulates repayment within 22 years, beginning 8 years after receipt of the loan). Western reports also often overlook that there are several credit agreements made by the Communist bloc which stipulate shorter repayment intervals. Thus, it says in the agreement with Argentina (cf. Vedomosti Verkhovnogo Soveta SSSR, Moscow, Vol 22, No 20, 1959, pp. 326-329) that the 100-million dollar loan is to be repaid within ten years, beginning 3 years after delivery of the various items and within seven years in seven yearly installments. While a period of 12 years is still considerably less than the time granted for loans made by the World Bank, the repayment periods of many East European credits correspond to the conditions of Western private credits. In most of the credit agreements of the East European countries with underdeveloped nations a repayment term of only 4-8 years is stipulated.

The generally stated opinion that a decided advantage of the conditions of Communist bloc loans consist in the condition that repayment can be made in raw materials or in the currency of the country receiving the loan (see Note) is false when stated in such generalized terms. The repayment of the loans through products of the country, which is often particularly attractive to underdeveloped countries in view of present world-market conditions, is always stated most prominently in the contracts, but all contracts also carry



various other means of repayment. The stipulations concerning repayment in raw materials or in the currency of the underdeveloped country mean in practice that the yearly interest and amortization payments are made to the account of the Communist country granting the loan with the local central bank. The amounts thus accumulated can be used by the Communist country for purchases of local products but also for payment of expenses which may arise, for example, in connection with maintaining diplomatic representation. But when no satisfactory agreement concerning repayment can be reached in this manner, repayments almost always become due in convertible currency. Thus, for example, it says in the agreement with Syria that amortization and interest are to be paid either in Syrian goods to the Soviet Union or through a special agreement between the Soviet State Bank and the Syrian Central Bank in freely convertible foreign exchange. The corresponding stipulation in Article 6 of the agreement with Ceylon reads that the repayment of the principal and interest on the loan must be made into a pound-sterling account which the Central Bank of Ceylon opens in favor of the State Bank USSR. The amounts which are paid into this account may be used by the Soviet agency for purchasing Ceylonese goods according to the conditions of the Soviet-Ceylonese trade and payment agreement, but they also can be exchanged into pound sterling or into another convertible currency. Article 3 of the agreement between the USSR and Argentina stipulates that the two parties open US-dollar accounts for all transactions. The East European countries apply stricter standards than the USSR. Thus, the agreement between Syria and Czechoslovakia dated 16 March 1957 calls for a 15-million dollar loan at 3% interest with repayment 23% in Syrian currency and 77% in pound sterling.

([Note:] At times repayment also is stipulated in those products which will be produced in the installations financed by the loan, e.g., a part of the production of the Indian Bhilai Steel Works is to be used as repayment by shipping it to the USSR.)

It was noted already in the analysis of Communist trade with underdeveloped areas that the Communist bloc is not prepared to make long-term agreements with respect to the price and quantity of the raw materials it might take. The conditions of the credit agreements similarly stipulate that prices and quantities of shipments which are made within the framework of repayment must constantly be kept under review. Thus, the agreement between the USSR and Ceylon contains the clause that in the repayment of the loan and interest charges in the form of Ceylonese goods, Soviet and Ceylonese organizations are to set three months before the beginning of the year in which repayments and interest charges become due in advance for each calendar year the kind and price of the goods based on world-market prices, as well as the quantities and shipment dates. This

condition clearly shows that the Communist bloc is not willing to commit itself for more than one year. Thus the Communist bloc reserves the possibility of adjusting the repayment obligations of the underdeveloped countries each year according to the prevailing economic and political situation.

The fact that repayment conditions mention the shipment of native goods first and payment in convertible currency only in second place should not be overemphasized also for other reasons. Even the repayment of loans to Western private firms denotes in the final analysis nothing but shipment of native products (and important Western firms have also in recent years accepted payment for their shipments in local currency and distributed the export products purchased for these funds through subsidiary companies). Convertible currencies can in the final analysis also only be obtained through exports. On the other hand, repayments in native products are equal in some cases, for example India, to repayment in foreign currencies, unless the instalment amounts are used for the purchase of such products which India does not normally export. The situation is different, of course, when there are difficulties in disposing of goods, as was the case with Egyptian cotton. But even then the underdeveloped country is not helped with this mode of repayment if the shipments are re-exported to Western countries. The export economy of the particular country may also be endangered through repayment in native products if sudden purchases from the accumulated repayment funds raise the prices of the export product thus creating difficulties for the sale of these products on the world markets.

Finally, it must be noted that the underdeveloped countries do not receive convertible currencies in active trading with the Communist bloc, but credit accounts within the Communist bloc which can be used for limited purchases only. The history of the relations between the Communist bloc and the underdeveloped areas has shown again and again that those underdeveloped countries which are closely allied with the Communist bloc often possess higher credit accounts in the Communist countries than the entire financial assistance received by these countries from the USSR. For all these reasons, the advantages of the repayment conditions for Communist loans should not be portrayed as being more favorable to the underdeveloped areas than the conditions surrounding the credits given by private industry, in the West, at least not without the necessary qualifications. It must also be mentioned in this connection that many loans granted by the US government also allow repayment in local currencies (e.g., those loans which are made under the program for the sale of American surplus goods). In addition, the greatest part of the repayment value in these cases is turned into a gift for the underdeveloped country or offered as a long-term loan.

### Reasons for Overrating Communist Financial Aid

Erroneous estimates of Communist financial aid have been repeatedly made in recent years. Such erroneous estimates which are primarily published in the press of the Western countries and of underdeveloped areas are extremely useful for Soviet propaganda since they create the impression that the foreign aid of the Communist bloc is larger than it is in reality. The main reason for such erroneous judgments may be sought in the obscurity of Soviet methods in the granting of loans. It cannot be emphasized often enough that a distinction must be made between credit agreements which only represent a framework or ideal agreement and the specific contracts which are concluded within the framework of the credit agreement. All credit agreements or all credit discussions held within the framework of negotiations on economic and technical aid contain stipulations whereby a special contract must be negotiated for each individual shipment and for each action taken within the framework of the credit agreement. Thus Article 10 of the agreement with Syria reads:

"The execution of studies, investigations and projects, the shipment of equipment and machines, the sending of Soviet specialists to Syria, as well as services rendered by the Soviet Union under the present agreement are subject to the conclusion of individual contracts between the Soviet agency and the Syrian authorities so empowered by their government. The contracts stipulate in detail volumes, delivery dates, prices, guarantees and special conditions concerning the execution of studies, investigations, and planning of projects, as well as the shipment of installations and machines and for services rendered under the agreement. The prices of goods are to be set on the basis of world-market prices."

These contractual regulations often lead to great confusion in the reporting of press and radio. One must realize here that the USSR or another Communist country generally first of all make an offer for economic aid which, after being agreed to in principle by the respective government, is fully discussed in mutual talks. The amount and the conditions of the credit offer are already being discussed by the public in this preliminary stage. The final negotiations on concluding the credit offer usually do not begin until several months after the initial offer was made. At the time of signing the agreement which, in addition to the amount of the loan, contains all important conditions with respect to interest rates, repayment, etc., reports again appear about the loan. From this the public often gains the impression that

the renewed reporting concerns a new loan, particularly since well-known newspapers and magazines often speak expressly of a new loan (see Note 1). The preliminary studies and the planning of the individual projects mentioned in the over-all agreement are then gradually carried out. These preliminary studies may take several years for larger projects. After conclusion of the preliminary studies, individual contracts which go into the finest detail are then signed for each separate project. These individual contracts also mention the credit sum necessary for this particular project, which represents a part of the total sum agreed upon in the over-all agreement. When these partial sums reach an amount of 30 or 40 million dollars (which occurred, for example, within the framework of the 175-million dollar loan to Egypt or the 125-million-dollar loan to India), the loan is again discussed in the press and radio and even in reputable sources, often without the reminder that it refers to a partial credit which is part of an over-all credit granted years ago. Thus the impression is created in the public mind of the Western as well as of the underdeveloped nations that the USSR grants certain underdeveloped countries large credits in rapid succession. This manner of reporting must be considered as the chief source for overrating the financial aid given by the Communist bloc (see Note 2). This impression is further fostered in the public mind through leading Western politicians and economists, who declare again and again that Western aid to underdeveloped areas must be increased in order to meet the menace from the East. Such reasoning may be appropriate at times for reasons of domestic politics, but it does not reflect actual conditions and it is superficial in view of the duration and extent of Western foreign aid as well as the necessity to help the underdeveloped countries which exists quite independently of the actions of the Communist bloc. Soviet propaganda is naturally not interested in correcting these over-estimations of the Communist bloc's foreign aid. On the contrary, the USSR has been successful in deriving considerable advantage from this public impression within the framework of her systematically planned "ruble offensive."

([Note:] 1. As an example, the 125-million-dollar loan to India might be mentioned briefly. The world press reported this event for the first time in 1956, when the USSR declared its willingness to make such a loan. When, at the end of 1957, the final word was given, the press reported the event for the second time and in such a manner as to give the impression that the Soviet Union was again the helper appearing at a time of great financial need, when the expectations of India had been disappointed with respect to financial aid from the US and West Germany.

[Note:] 2. Counting the same credit sums twice because of overlooking the difference between the over-all agreement and special

contracts is to be noted even in scholarly accounts. For example, Joseph S. Berliner in his monograph Soviet Economic Aid -- The New Aid and Trade Policy in Underdeveloped Countries, New York, 1958 reports under Soviet loans to India a credit of 63 million dollars, which obviously is a partial credit under the total credit of 125 million dollars. In adding Soviet credits to India, he therefore arrives at a total sum considerably higher than that given in Soviet and Indian sources. Berliner committed such errors because -- as may be seen from his references -- he took the reports concerning the various credits partly from US newspapers.)

Because of the senseless reports of figures in many publications, it is extraordinarily difficult to give even a somewhat reliable estimate of financial aid by the Communist bloc. As paradoxical as it sounds, the most reliable method under the given conditions is a study of the newspapers and magazines of the Communist bloc. Only because the US Department of State regularly publishes figures on the extent of financial aid by the Communist bloc -- which are arrived at after very cautious calculations -- are there also any reliable estimates in Western sources. All such sources were used in the following summary of financial aid by the Communist bloc. To exclude errors as far as possible, all credit agreements concluded between the Communist bloc and underdeveloped countries, as far as these were published either in the Communist or the underdeveloped countries, were also studied. Nevertheless, it must be pointed out that, although the following figures for all the larger credits granted by the USSR may be taken as absolutely reliable, a series of smaller credits -- particularly on the part of the East European countries (see Note) -- with respect to amount and conditions of the loans are not described with complete accuracy. However, these qualifications do not alter the accuracy of the ranking according to size of the following figures. In addition to these figures it is recommended that the description of the individual credits listed in the appendix according to underdeveloped country be read.

([Note:] A part of the credits from East European countries listed below are undoubtedly credits on such terms as are customary in the course of normal trading. It is to be noted also that these are sometimes merchandise credits which can be realized only when it actually comes to an exchange of goods. Thus, the 30-million-dollar credit arranged between the USSR and Argentina in 1953 was for the greatest part never realized. Despite this, the credit still appears often in the listings of Western publications.

### Problems in Converting Rubles to Dollars

The following figures concerning the financial aid of the Communist bloc were arrived at by converting rubles to dollars at a ratio of 4:1, on the basis of the officially determined gold content of rubles and dollars. It must be recognized, however, that the official ratio of dollar to ruble hardly corresponds to actual market conditions. The tourist exchange rate in the USSR, for example, is 10 rubles for every dollar. On the basis of this exchange rate, it would be necessary to divide the listed amounts by a factor of 2.5 to arrive at the dollar values which would correspond to the tourist exchange rate. But this would undoubtedly lead to a certain underestimation of the foreign aid of the USSR, since the tourist ruble is primarily used to buy consumer goods and services which are highly priced in the Soviet Union for political reasons. Such an adjusted rate would tell nothing about the prices and costs of industrial goods, which occupy the center of Soviet production. Thus, it would not be correct to convert, for example, the 400-million-ruble loan which was offered to Ethiopia in such a way that a dollar value of 40 million dollars (instead of 100 million dollars) results.

Perhaps one can arrive at a more realistic exchange rate for USSR loans than is represented by the official rate of 4:1 by making the following calculations: The Soviet gross national product for 1959 can be estimated at 1,400 billion rubles. According to the official exchange rate, this would equal 350 billion dollars. If, however, one makes a rough comparison of Soviet and US production, one can see that with an estimated US gross national product of 480 billion dollars in 1959 the Soviet gross national product is overestimated by far. The industrial production of the USSR amounted, according to careful estimates in 1959, to about 40-45% of US industrial production. The agricultural production of the USSR may perhaps be estimated as being somewhat higher [sic] than that of the US economy. Taking into consideration services, which lie considerably below the US level, one arrives at a total Soviet gross national product that amounts to about 40-45% of the US gross national product. Accordingly, for the year 1959, one would have a Soviet national product of 210-220 billion dollars. If this figure is related to the Soviet national product in rubles, i.e., about 1,400 billion rubles, a ratio of ruble to dollar of the order 6-7:1 results. Thus it would perhaps be more correct to take a ratio of 6:1 as a basis for listing Soviet financial aid. But since these are not precise calculations, we shall adhere to the official ratio of 4:1, keeping in mind the qualifications given above. Decisive is -- as we have emphasized repeatedly -- the price of the capital goods and services supplied by the USSR, as well as the price of shipments made by underdeveloped countries in exchange for Soviet goods and services. It was pointed out before that precise calculations of

these prices is not possible (on this conversion problem, see also J. S. Berliner, Soviet Economic Aid, op. cit., pages 195-197).

#### Extent of Promised and Actual Financial Aid

The total volume of financial aid of the Communist bloc to underdeveloped areas amounted to 2.9 billion dollars at the beginning of 1960 as the following summary contained in Table 1 shows. The Soviet Union alone accounts for 2.4 billion dollars, while the East European countries furnished credits of about 350 million dollars and Communist China credits and gifts of about 140 million dollars. Just as the trade of the Communists with underdeveloped countries is concentrated on only a few nations, the predominant part of Communist bloc loans are also given to only a few underdeveloped areas. Over one half of all credits were received by India and the UAR alone. If the loans to Indonesia, Iraq and Afghanistan are also considered, it becomes evident that more than three quarters of the total financial aid of the Communist bloc went to only five underdeveloped countries.

In most Western publications concerning financial aid by the Communist bloc, it is either not noted at all, or not sufficiently emphasized, that such summaries do not represent loans actually made. Our summary also includes the amounts which up to the present were promised by the governments of the Communist countries or about which mutual agreements have been signed by the respective governments, as well as those amounts which were actually paid out by the USSR and by the other Communist countries in the form of goods or services. In addition, credit offers are listed about which no contracts have as yet been signed. Unfortunately, it is not possible to make a breakdown of the total sums according to amounts actually paid out, amounts which have not yet been taken up, and amounts which have so far only been offered. But only such a summary would reveal the true value of the Communist bloc's financial aid.

The loans made available by the World Bank, for example, are also taken up, according to their purposes, only after 3-7 years. The loans of the Communist bloc similarly become effective only after a number years from the date of the given contract. Preliminary planning and investigations often stretch over a time period of several years. Thus, a period of two years was set for such preliminary tasks in the agreement between the USSR and Iraq. The financial aid to the Syrian Region of the UAR will only be taken up during a time span of 7 years. It does not come as a surprise, therefore, that the effective use of financial aid from the Communist bloc is quite small up to the present time. According to careful estimates, such effective use probably lies at present at a maximum of 500-600 million dollars. Less than a quarter of the total financial aid of the Communist bloc has, therefore, been realized thus far (see Note).

Table 1: Summary of Financial Aid by the Communist Bloc, 1953-May 1960\*

Country Supported	USSR	Red China	Czechoslovakia	East Germany	Hungary	Poland	Romania	Total
Asia Total	1667.5	139.1	158.6	10.0	-	75.6	12.1	2062.9
Afghanistan	205.0	-	5.0	-	-	-	-	210.0
Burma	20.0(?)	4.2	-	-	-	-	-	24.2
Ceylon	30.0	26.5	5.0	-	-	-	-	61.5
India	677.3	-	86.5	2.5	-	32.1(?)	12.1	810.5
Indonesia	376.3	36.4	20.8	7.5	?	43.5	-	484.5
Iraq	137.5	-	30.0(?)	-	-	-	-	167.5
Yemen	41.0	16.0	?	-	-	-	-	57.0
Cambodia	6.0	22.4	?	-	-	?	-	28.4
Nepal	6.4	33.6	-	-	-	-	-	40.0
UAR	168.0	-	11.3	?	?	-	-	179.3
(Syria)	-	-	-	-	-	-	-	-
Africa Total	602.5	4.6	65.0	21.5	-	-	-	693.6
UAR	465.0	4.6(?)	56.0	21.5	?	-	-	547.1
(Egypt)	102.5	-	9.0	-	-	-	-	111.5
Ethiopia	35.0	-	?	-	-	-	-	35.0
Ghana	-	-	-	-	-	-	-	-



Latin America									
Total	200.0	-	2.0	-	-	6.0(?)	-	208.0	
Argentina	100.0	-	2.0	-	-	6.0(?)	-	108.0	
Cuba	100.0	-	-	-	-	-	-	100.0	
Grand Total	200.0	143.7	225.6	31.5	?	81.6	12.1	2964.5	

\*)excluding military aid

Note: The loans made available to Yugoslavia on political grounds, which were canceled and then reinstated are not listed here (instead see Sino-Soviet Economic Offensive in Less Developed Countries, Department of State, Washington, 1958, p. 107 ff.) Also not listed are loans to Turkey, which received a few short- and medium-term credits of several million dollars from the USSR and Czechoslovakia.

([Note:] Berliner estimates in his monograph that about 350 million dollars were paid out by the end of 1957, which would amount to about 20-25% of the total financial aid granted at that time (cf. Berliner, op. cit., page 42, pages 208 ff.) These estimates seem too high according to our own calculations. The estimates of the US Department of State, quoted by Berliner, are also considerably lower for the end of 1957, namely by about 10-15%).

If one wants to gain a comparative idea of the magnitude of financial aid by the Communist bloc, one must realize that only about 500-600 million dollars have been effectively paid out up to the present. In contrast, actual, paid-out foreign aid by the US amounted to almost 2.2 billion dollars in 1958 alone, of which almost three quarters were grants (gifts) (See Note). The effective financial aid of the Communist bloc since the beginning up to 1960 thus amounts to only a quarter or a third of the effective US aid of a single year.

([Note:] It would lead us too far afield to enumerate in this connection the individual foreign-aid programs of the Western industrial nations. We are restricting ourselves, therefore, to a comparison with the foreign aid of the US. For more comprehensive data on US foreign aid, see International Cooperation Administration, Operations Report, 30 June 1959, p. 4; also Statistical Abstract of the United States, 1959, Washington, 1959, p. 874. A general review of foreign aid by the Western industrial countries may be found in Klaus Billerbeck, Kritische Bemerkungen zur Auslandshilfe fuer die Entwicklungsgebiete (Critical Notes on the Foreign Aid to Underdeveloped Countries), Wirtschaftsdienst, Hamburg, July 1958, p. 377 ff. Aid given by the Federal Republic of Germany is discussed in K. Billerbeck Deutscher Beitrag fuer Entwicklungslaender (German Contribution for Underdeveloped Countries), Hamburg, 1958.)

In this connection, it is also interesting to make a comparison with loans granted by the World Bank, whose members do not include the Communist-bloc countries. The World Bank made loans of a total of 700 million dollars in 1958-1959 alone. Of this amount, the underdeveloped countries received about 460 million dollars (see Note<sup>1</sup>). It is further illuminating to compare the financial aid of the Communist bloc with the credits made available by the Import-Export Bank. The total amount of loans made by this institution amounted to 3.4 billion dollars for the period 1956-1959. The total financial aid of the Communists most of which has not even been paid out, thus lies far below the volume of this institution (see Note<sup>2</sup>).

([Note:] 1. These loans were made to the following underdeveloped countries (in millions of dollars:) Brazil, 84.6; Ceylon 7.4; Columbia 19.4; Costa Rica 3.5; Ecuador 13; El Salvador 8;

Gabon 35; Honduras 1.45; India 135; Iran 72; Malaya 35.6; Peru 6.575; Sudan 39. The terms of these loans are up to 25 years; but the interest rates are considerably higher than those on Communist-bloc loans, namely between  $5 \frac{3}{8}$  and  $5 \frac{3}{4}\%$ , sometimes also 6%. For details, see International Bank for Reconstruction and Development, Annual Report, 1958/59, p. 9.)

([Note:] 2. The Import-Export Bank has made loans in the amount of 10.2 billion dollars since its founding 25 years ago. About 38% of this sum was paid to Latin America, about 20% to Asia and about 2% to Africa. For details, see Export-Import Bank of Washington, Report to the Congress, 30 June 1959, p. 193.)

#### Technical Aid

It was already noted in the introduction that the predominant part of technical aid granted by the Communist bloc has been in a form that is not comparable to the technical-aid programs of Western governments or international organizations, but corresponds most closely perhaps with technical aid rendered by Western private industry (See Note). It follows from this that a dollar-and cents calculation of Communist technical aid is just as impossible as a monetary expression of the services rendered by private industry in the Western countries within the framework of their deliveries. The technical aid of the Communist bloc is thus predominantly a part of the services which, in monetary terms, are included in the given credit agreement between the Communist bloc and the underdeveloped country. In other words: as far as money values are concerned technical aid is part of the financial aid, in contrast to the technical aid of Western governments and international organizations which is generally made independently of financial aid or the shipment of goods and can, therefore, be specified in precise monetary terms. Technical aid which is made by the Communist bloc independently of the shipment of goods must be paid for, with a few exceptions, by the underdeveloped country. These services will be specified in the contracts concerning economic and technical cooperation and must be paid for from the credits granted in the contract.

([Note:] Technical aid by individual Communist countries in the real sense, i.e., under conditions similar to those surrounding the technical-aid programs of Western countries, is only given very rarely. Thus, the USSR sent a commission for agricultural and industrial projects to Nepal and Cambodia without asking for payment of these services. Precise calculation of the extent of this form of Communist technical aid cannot be made. Berliner (op. cit., p. 46) has tried to obtain a ranking according to magnitude on the basis of rough estimates. He made the following calculations: the Com-

munist bloc has so far (1957) sent a total of 40 technical-aid missions to underdeveloped areas, half of which were Soviet missions. If one assumes that about 80 such missions were sent and if, according to Berliner, one sets the average cost at \$100,000 per mission, one would arrive at a total cost of about 8 million dollars. Thus, Berliner concludes that the total technical aid of the Communist bloc is of a magnitude of about 5-10 million dollars. In making such calculations, it should be realized that they represent only a part of the technical aid rendered by the Communist bloc. The predominant part is made in forms similar to those practiced by Western private industry in conjunction with the delivery of industrial equipment and installations. The sum of such technical aid of the Communist bloc would lie considerably higher. The technical aid rendered in conjunction with the construction of the steel works of Bhilai alone probably reach at least 10 million dollars in view of the magnitude of the total project).

However, it is possible to obtain approximate data of the number of technicians, engineers, advisers, etc., working in underdeveloped areas from the reports of the US Department of State (see Note), which is in a position to make estimates through its offices abroad. According to these data, there were about 1,600 specialists from Communist countries in 19 underdeveloped countries during the second half of 1957. There were 470 specialists in the UAR, 455 in Afghanistan, and 260 in India. Of the 100 experts working in Indonesia, 75 came from East Germany for the installation of a sugar factory and 20 from Czechoslovakia (CSR) for the construction of a rubber-tire factory. In view of the numerous projects which have been started since 1957 within the framework of Soviet financial aid, the number of experts from Communist countries working in underdeveloped areas has presumably sharply increased. Estimates for 1958 mention more than 4,000 technicians and advisers from Communist countries which remain for more than one month in an underdeveloped country. It is to be noted in this connection that during the first half of 1959 there were in Yemen alone several hundred Soviets and Chinese working on road and harbor construction. In the second half of 1959, the number of experts from the Communist bloc in underdeveloped areas was again sharply increased, namely to a total of 6,100 (1,400 of these were military advisers); 61% of these experts came from the USSR, 27% from East European countries, and 12% from Red China.

([Note:] cf. The Sino-Soviet Economic Offensive in the Less Developed Countries, Department of State, Washington, 1958, pp. 29-31.)

The technical aid of the Communist bloc embraces today already all feasible development projects. The chief emphasis is

naturally on services in connection with the construction or installation of equipment delivered by the Communist bloc. But planning and economic-technical research projects play an increasingly greater role (cf. Technical Assistance Committee, Annual Report of the Technical Assistance Board for 1958, Supplement No. 5, New York, 1959, pages 102-103.) Since 1957, East European nations have also rendered increasing technical aid. This applies particularly to Czechoslovakia. Thus, the plans for metal and rolling mills in India, the UAR, Argentina, Pakistan and a series of other underdeveloped countries were worked out by Czechoslovak experts. The Czechoslovak bureau for the planning of public water works designed the plans for the municipal canalization and water works in the UAR and Cuba. A large number of specialists were sent by Czechoslovakia to underdeveloped areas in recent years.

Until 1958, the use of Chinese experts was restricted to only a few neighboring areas of Red China (particularly Cambodia). But recently Red China extended its technical aid to other underdeveloped areas. Thus, there are presently Chinese road-building engineers in Yemen, Chinese experts for tea growing in Morocco, and those for the growing of rice in Guinea.

#### Cooperation with the UN Program

An exception to the principle of the Communist bloc to grant only paid technical assistance are the services of the Communist bloc rendered within the framework of their membership in the Extended Technical Aid Program of the UN. At first, the Communist bloc did not participate in this international aid program. They declined participation with the remark that this international organization was only a tool for the infiltration of the monopolistic private capital of the Western nations into underdeveloped areas. The USSR became a member in 1953, and gradually also the other Communist countries, with the exception of Red China and East Germany, joined the organization. But the USSR agreed only very reluctantly to the principles of this multilateral aid program, namely not to make any conditions concerning the use of the funds contributed under the program. The Soviet contributions thus became available only in 1954 after prolonged negotiations. The Communist bloc participated financially in this international aid program between 1953 and 1959 as follows:

Table 2: Contributions of the Communist Bloc to the Extended Technical Aid Program of the UN, 1953-1959

Country	US Dollars
USSR	7,000,000
Ukrainian SSR	750,000
Belorussian SSR	300,000
Czechoslovakia	451,400
Poland	525,000
Hungary	140,700
Rumania	66,800
Bulgaria	58,800
Albania	6,000
Total	9,298,700

Source: Technical Assistance Committee, Annual Report of the Technical Assistance Board for 1958, Supplement No 5, New York, 1959, pages 102-103.

Within the framework of the total UN aid program, these contributions are not very impressive. Thus, France alone contributed during the same period of time 9.6 million dollars -- more than all the Communist countries taken together. The contribution of an underdeveloped country such as India to this aid program amounted during the same time to 3 million dollars, almost one third of the contributions of the Communist bloc. The yearly contribution of the US -- 15 million dollars -- exceeds by far the payments of the entire Communist bloc for 7 years. The US contributed during 1953-1958 alone over 85 million dollars to the program.

And the USSR endeavored from the beginning to advertise the projects of the UN program partially financed by her contributions as exclusive projects of the USSR undertaken within the framework of a bilateral Soviet development plan. This was shown particularly during the construction of a polytechnical institute for Bombay for which the USSR delivered equipment of a value of 2.5 million dollars and 15 professors for five years from its UN contribution.

The following projects were financed from the contributions of the Communist bloc to the technical aid program of the UN: equipment for university laboratories in Kabul, Santiago de Chile and Damascus; medical apparatus and instruments for hospitals in India and Ceylon; calculating machines for India's statistical institute; drilling equipment for irrigation work in Pakistan; teaching aids and films for the training of railway personnel in Lahore; meteorological and geophysical instruments to Mexico, Pakistan, Lybia and

Afghanistan; seminars given for experts in the USSR, particularly for geologists, mining engineers, specialists for energy, water, forestry, and agricultural projects. The Czechoslovak contribution financed a seminar for forestry specialists from underdeveloped areas with each member being supported by a scholarship. Fifteen specialists, furthermore, took an inspection tour of the CSR. These specialists were from the member states of the UN Economics Commission for Asia and the Far East. The CSR furthermore delivered various instruments for educational institutions and scientific research institutes in the UAR, Burma, Lebanon, Ceylon, Chile and a series of other underdeveloped countries. (cf. N. Semin "Economic cooperation between Czechoslovakia and the underdeveloped countries," Voprosy Ekonomiki, No 4, Moscow, April 1958.)

#### Preparations of the Communist Bloc for Technical Aid

Since the end of the Second World War, the USSR has systematically worked at the training of technicians and economists who are able to function as experts in foreign countries. The experts were first used in East European countries to help there in the construction of heavy industry. Since 1949, thousands of experts were also sent to Red China to supervise development projects. The East European countries, particularly Czechoslovakia, East Germany and Poland have increasingly sent experts to China since 1950. In this manner, the Communist bloc has built up a fund of experts when it began in 1953 to foster its economic and technical relations to underdeveloped areas.

It was early recognized by the Communist bloc that special training is particularly necessary for work in underdeveloped areas to lend the greatest possible prestige to these activities in the eyes of the native population. Thus, all persons who are sent to underdeveloped areas within the framework of these aid programs receive special training to enable them to deal with native workers in the "right" manner and to suggest to local planning experts the "right" measures. The importance attributed to such special training has led the government of the USSR to establish special training centers (such a training center is to be opened in Turkestan) in which Soviet experts can be trained for tasks in underdeveloped areas and where experts from underdeveloped areas can also be trained. In this endeavor, the USSR tries to send to Asian countries preferably persons from her own Asian areas and to send to Arabian countries Soviet citizens of the Mohammedan faith. Thus, among the advisers and technicians who are working in Afghanistan there are several persons from the Soviet republics of Turkmenistan and Uzbekistan. The leader of a large group of Soviet technicians and advisers in Yemen is a Soviet Russian who was born in Yemen and who has a perfect command of the language. But it is not only the

USSR who endeavors to send well-prepared and adaptable persons to underdeveloped countries. The East European countries also conduct systematic, special training for persons sent to underdeveloped areas. Thus, East Germany assigned already in 1955, 200 engineers for such special training.

The Communist countries have some very significant advantages in their technical aid programs over the corresponding facilities of the Western industrial countries. Since the Communist bloc is a totalitarian system, it is possible to apply much stricter standards in the selection of experts, quite apart from the fact that government agencies simply demand thorough training with respect to the language and customs of the underdeveloped countries. Contrary to the careful selection and preparation practiced in the Communist countries, it is difficult for private firms in the Western industrial countries, particularly in times of full employment, to find suitable personnel for the execution of projects in underdeveloped areas. This leads to many difficulties with local personnel which are normally not encountered by experts from the Communist bloc. Such difficulties are partly prevented by the strict discipline to which all technicians and experts from Communist countries are subject. Thus, the Soviet technicians in Bhilai, India and all experts employed in Egypt are forbidden to drink alcoholic beverages.

The adaptability of these experts to the standard of living in underdeveloped areas is partly a function of the standard of living enjoyed by these experts in their own countries. Chinese and Soviet technicians find it naturally much easier to adapt to the conditions in underdeveloped areas because of their own background.

For example, the Soviet experts in Bhilai, as compared to the German experts who were engaged in the construction of the steel works of Rourkela, lived very modestly (for a comparison of the living and working conditions in Rourkela and Bhilai, see Peter Schmid "Deutsche und Russen im Weststreit", Der Monat, August, 1959).

Soviet families employ servants only in exceptional cases. The women buy on the market just as the Indian women do. Nevertheless, these Soviet experts consider their work in Bhilai more or less as a form of recreation since they receive there a number of consumer goods which they are unable to buy in their country. Furthermore, they are not bothered as much with political meetings, etc. Thus, their life there is a certain sense more generous and pleasant than in their own country. In contrast, the experts from Western industrial countries look upon assignments in underdeveloped countries as a form of deprivation which may be compensated for by an increased consumption of alcohol, the construction of luxurious club buildings, swimming pools, etc. These installations are necessarily restricted to members of the families of the foreign experts, a rule that also applies to hospitals. This alone leads to difficulties with the native population which do not occur in



settlements housing Communist technicians. It is to be noted that the particularly high standard of living of Western experts has been criticized for a number of years by the native middle-class. Therefore, the relatively modest standard of living of the technicians and advisers from Communist countries is a not insignificant psychological advantage which is more and more frequently noted in these countries (see Note).

([Note:] But sometimes the modest standard of living of the Soviet experts is also criticized. The Western experts provide additional sources of income by keeping, for instance, a number of servants and by being generous in other expenditures as well. The Soviets are criticized, then, for not keeping servants and not providing additional sources of income because of their meager standard of living.)

The relatively modest living and production conditions in Communist countries allow the expert from the Communist bloc to adapt his methods more readily to local conditions than the Western expert who is accustomed to the most advanced methods. This seems to be the chief reason for the better adaptability of the Eastern expert. For example, while there were often serious tensions during the construction of the steel works of Rourkela because the German engineers were impatient with the work performance of the Indians, the Soviet experts were able to establish very congenial relations with the Indians during the construction of Bhilai because they showed great patience in their supervision. The Indians have said again and again that the Soviet engineers are distinguished by great patience, by their willingness to teach their Indian colleagues and by delegating responsibility to them very early. Thus, Bhilai saw early very congenial relations between Russians and Indians. Undoubtedly, the reason for the adaptable behavior of the Russians cannot be sought only in their thorough preparation. It is rather that the Soviet technicians are required to exercise more patience also at home while the Western experts are likely to demand the perfectionist performance and methods characteristic of Western civilization also in their work in underdeveloped countries (see Note).

([Note:] Similar comments may be made for the production techniques -- with the exception of a few industrial fields -- to be found in the USSR which are often far simpler, if not more primitive, than production techniques in Western countries. Correspondingly, the equipment delivered by the Communist bloc is frequently better suited to the conditions of underdeveloped countries than the highly developed and complicated machines and equipment from the Western industrial countries. But it is also true that the West can often take the requirements of an underdeveloped country into account much better than the inexperienced Communist bloc

because of the former's long standing activities in underdeveloped areas.)

Emphasis: The Training of Native Specialists

Within the framework of their aid programs for underdeveloped areas, the Communist bloc has emphasized particularly the training of specialists, qualified technicians and technical and commercial supervisory personnel. An example of this form of technical aid is given by the contract signed in connection with the construction of the steel works at Bhilai. The Soviet personnel in India undertook first the training of 4,500 unskilled and skilled workers which lasted for 2-9 months. In addition, 300 skilled industrial workers were trained for a period of one year for the jobs they were to hold in the steel works. Five hundred engineers and technicians received special training by Soviet experts at the construction site. Another 300 skilled workers and 135 engineers were given the opportunity to study Soviet production methods in the USSR itself. Similar contracts were signed in conjunction with all larger orders, sometimes including the training of personnel for other projects as well.

Besides these training programs which are undertaken in conjunction with the delivery of industrial equipment and installations, the Communist countries constantly extend invitations to students, technicians, economists, scientists and administrators from underdeveloped areas. For example, numerous Indian groups travelled in the USSR to study the glass industry, oil refineries, fertilizer factories, railway and broadcasting installations and agricultural stations. Egyptian students and scientists received fellowships for study at the Institute for Nuclear Physics in Moscow. East Germany invited Egyptian physicians, agronomists and technicians. The Communist countries, particularly in Eastern Europe, also try to invite, for instance, Indonesian students who would like to leave the Netherlands for political reasons or Algerian students who do not want to study in France for study at the Universities of Prague, Warsaw or East Berlin.

In 1957, the number of technicians and students from underdeveloped areas studying for longer periods of time in Communist countries was estimated to be over 2,000 (cf. "The Sino Soviet Economic Offensive in the Less Developed Countries," Department of State, Washington, 1958, p. 20). During 1959, especially, the East European countries were included more frequently in this training program. In Czechoslovakia, several hundred students from the UAR, Indonesia, Iraq, India and Ceylon have been accommodated. Invitations for study at East European universities have recently been particularly frequent for students from Iraq. Thus, Bulgaria offered in 1959 to take into her institutions of higher learning 100 students

from Iraq. More recently, the number of students from African and Latin American countries studying in Communist countries has also increased. For example, a group of students from Ethiopia and Guinea are presently staying in Czechoslovakia where they are to study Czech for one year in preparation for university studies.

The authorities in the Communist countries make great efforts to transmit to students from underdeveloped countries not only specific professional training but also their way of life. Many disappointments which the student from underdeveloped areas experiences during his stay in Europe and North America are avoided when he stays in Communist countries. In contrast, for example, to their stay at German universities, the student from underdeveloped areas is accommodated in a boarding school system while in the Communist country so that the problems arising from being alone in a strange country do not arise. Even when the students receive their own apartment, the authorities take care to plan suitable recreational programs. In the long run, it will certainly be true that more and more scientists and students will complete or complement their education at institutions in Communist countries. In contrast to the overcrowded universities in the Western industrial countries, the USSR, particularly, plans to make available more and more places for students from underdeveloped areas. Soviet universities particularly, which have in the past taken in thousands of students from the East European countries and Red China, have been chosen for this task with increasing frequency. The Communist bloc is thus in a position to offer free places immediately to students from countries which have just gained their independence. The educational agreement between East Germany and Ghana, which provides for the training of 30 technicians and 20 students, is an example of this trend, as is the agreement between Czechoslovakia and Guinea.

Certain changes in the technical aid program of the Communist bloc is obviously evident during 1959. It is characteristic that the Communist bloc is obviously intent upon supplementing its previous financial aid by a comprehensive program of technical aid which is to concentrate especially on the training of experts from underdeveloped areas. Thus, the contract signed between the USSR and Iraq in 1959, providing for the technical training of 4,000 Iraqi workers in the fields of agriculture, industry, transport and power, is to be considered as the largest training program ever planned for an underdeveloped country. This agreement provides for the training of 4,000 specialists in 10 large training centers which are to be built by Soviet experts and equipped with Soviet materials. The training will be conducted largely by teachers from the USSR (this contract is part of a larger agreement concerning technical and economic cooperation between Iraq and the USSR). This example shows clearly the efforts of the Communist bloc to use its experts more and more in comprehensive training programs in underdeveloped areas.

A further example of this emphasis within the foreign aid programs is the intention to found a "People's Friendship University" in Moscow, where 500 students are to study already in 1960 and later a total of 3,000-4,000 students from Asian, African and Latin American countries. Curricula are planned in Medicine, Education, Engineering and Agriculture. Travel expenses, tuition and living costs, as well as medical treatment, will be furnished by the Soviets. This training program of the USSR must be considered unique in the history of aid for underdeveloped countries.

#### Military Aid

Military aid for underdeveloped countries is largely made by the USSR, although a part of the delivery of military equipment is made by Czechoslovakia, which also sends military experts to underdeveloped nations. Just as it was necessary to point out the fundamental differences between the economic-aid programs of the Communist bloc and the West, so it is essential to make similar distinctions for the military aid programs. US military aid, which includes the delivery of military equipment as well as the training of army personnel from underdeveloped areas, is generally rendered on the basis of grants or gifts. In contrast, the USSR asked for payment for all military equipment as well as for the sending of military advisers and trainers. Thus, one cannot really speak of military aid but rather of a trade agreement concerning military equipment.

#### Size of Military Equipment Deliveries

The USSR began relatively early to make agreements with underdeveloped countries concerning the delivery of military equipment and the training of army personnel from those countries. Until 1960, the USSR had agreed to military aid for at least six underdeveloped countries. The extent of this military aid can only be estimated in view of the secrecy surrounding these transactions. By far the greatest military aid was given to Egypt, whose government concluded several military pacts with the USSR during 1955 and 1956. The total value of deliveries made by the Communist bloc, either the USSR or Czechoslovakia, is estimated to be at least 300 million dollars. The greatest part of these materials was delivered during 1956 and 1957. At the same time, a large number of military experts were sent to Egypt from the USSR and Czechoslovakia. The Department of State has estimated the number of these military experts to be 450 for the second half of 1957. Several hundred Egyptian pilots, furthermore, received flight training in the USSR.

In 1956, an agreement was also made with Syria involving the delivery of Soviet and Czech military equipment as well as the training of Syrian officers and men on the Communist equipment. The value of these deliveries was estimated to be about 100 million

dollars, half of which came from the USSR, half from Czechoslovakia. About 200 military experts were in Syria during 1957 as trainers from the Communist bloc, while several hundred members of the Syrian Air Force received training during the same time at the flight-training centers of the Communist bloc. The USSR also signed a contract with Afghanistan in 1956, providing for the delivery of military equipment and the sending of Soviet military experts. The value of this military aid was estimated at about 25 million dollars. But it appeared that larger amounts of military aid were sent to Afghanistan in subsequent years. According to careful estimates, the total value of military aid to Afghanistan up to the present time amounted to 50 million dollars.

In addition, the USSR granted military aid to other underdeveloped countries, but it is almost impossible to obtain any information regarding these contracts. The value of military aid to Yemen is estimated at 16 million dollars, to Iraq between 100 and 200 million dollars. Information concerning the delivery of weapons to Indonesia is also difficult to obtain. Careful American estimates speak of about 150 million dollars. Guinea received in 1959 weapons worth about one million dollars. The total value of military aid made by the Communist bloc to the middle of 1960 is estimated at 700-800 million dollars, which was also actually delivered for the greatest part.

#### Conditions of Military Aid

In contrast to Soviet commercial credits, which are usually made on a long-term basis, credits granted in conjunction with military aid are of a relatively short-term nature. Although it is impossible to obtain reliable information regarding the conditions of Soviet military aid, statements made by Egyptian officials and politicians indicate that the USSR is not prepared to grant credits on as favorable a basis as is customary in conjunction with economic aid. According to unofficial information, Egypt and Syria have obligated themselves to repay military credits within five years, mostly in the form of cotton shipments.

In some cases, the USSR seems to have been prepared to deliver military equipment at very low prices. Thus, Yemen was supposed to have received shipments of a value of about 16 million dollars, while the government of Yemen had to obligate itself to repay only about 9-10 million dollars. Because of certain political and strategic considerations, the USSR seems to have been particularly generous with the pricing of military equipment for Afghanistan. The shipments to Afghanistan were supposedly made first without discussing payment at all. It was first in 1958 that the two governments took up negotiations regarding prices. However, the price demanded by the USSR was supposedly not accepted by the government of Afghanistan. Accordingly, the USSR also suggested

building for the same amount the road from Kiksch over Herat to Kandahar. Since the costs of this road-building project are estimated at about 80 million dollars, the USSR either made a gift to Afghanistan of the military equipment already delivered or of the road-building project. It is believed that strategic considerations dictated this unusual course. One of the goals of Russian politics vis-a-vis Afghanistan for over a hundred years has been a road to the sub-Indian continent that would circumvent the Hindukush. This road can now be built by the USSR.

### Consequences of Military Aid

In some underdeveloped countries, the granting of military aid by the USSR had considerable consequences particularly on foreign trade. A country such as Egypt which received an amount of military aid estimated at about 300 million dollars would have to -- assuming that these military credits have to be re-paid within five years -- deliver yearly about 60 million dollars worth of goods (predominantly cotton) to the Communist bloc. In Syria, such deliveries would amount to an estimated 20 million dollars yearly. According to unconfirmed reports, Syria was to make an initial payment of 10 million pound sterling. This would necessarily lead to a considerably expansion of exports from the underdeveloped countries to the Communist bloc. These underdeveloped countries are thus bound to high export quotas to the Communist bloc for some years without receiving economic advantages in return. Since shipments to Western countries must be reduced in the meantime, the possibility arises that military aid also functions to establish long-term economic relations between the underdeveloped countries and the Communist bloc. This was shown especially clearly in the example of Egypt, whose increasing cotton exports during 1956 to 1958 especially were largely made as repayments for Soviet military aid.

It would be misleading to assess Communist military aid simply in terms of the value or of the content of shipments made. In most underdeveloped countries, the military assumes a decisive position during the course of political changes. In Egypt, a group of young officers started the revolution; in Syria, the Army played a decisive role in forming the union with Egypt. It is possible also that some day a shift in the political power relations of Afghanistan, which still exists under a feudal system, will be brought about by the Army. In view of the great political importance which the military occupies in the domestic power struggles of the underdeveloped countries, it is all the more remarkable that the Communist bloc possesses in Afghanistan, for example, a practical monopoly of the military field. The War College of Kabul which for decades employed Turkish officers as instructors has today already a number of Soviet instructors. A ranking Soviet officers whose

official mission is to supervise the storing and servicing of the military equipment delivered by the USSR regularly attends, according to unofficial reports, the sessions of the Afghanistan General Staff. Officers and men are instructed in the use of Soviet tanks by Soviet instructors. The Afghanistan Air Force is largely equipped with Soviet planes while the flying personnel is being trained by Soviet instructors. In all these areas, a number of possibilities exist already for influencing the Afghanistan Army with the Soviet point of view. Undoubtedly, the infiltration of the Army in Afghanistan is an exceptional case. Egypt and Syria were largely able to restrict the influence of Soviet military advisers to technical problems. How far such influence has grown in Iraq, where some dozen Soviet instructors arrived simultaneously with the delivery of military equipment, especially torpedo boats and other naval vessels, is difficult to assess.

It is also questionable whether or not the military equipment sent by the USSR and Czechoslovakia corresponds in its composition to the requirements of the underdeveloped countries. It is probably reasonable to assume that most underdeveloped countries make large expenditures to build or maintain an army. The economic liabilities resulting from these expenditures must probably also be considered as inevitable. Even if the contribution of the army to the economic and social development of a country turns out to be a positive one, it is still questionable if the large shipments of heavy military equipment such as those made by the Communist bloc ever leave the storage stage to be used for training purposes. For example, heavy military equipment cannot be used in Afghanistan either for police actions against nomadic tribes nor, for that matter, in any sensible manner in view of the inadequate transport conditions. It is doubtful, furthermore, if the Afghanistan Army will ever reach the numbers that would allow the use of the large amount of military equipment stored today in Afghanistan, even if it was only for training purposes. On the other hand, there are still a large number of young persons today in Afghanistan which cannot be called to military service since there are not enough uniforms and rifles.

This uneven composition of military shipments is not only typical for Afghanistan but also for Egypt where one can find great storage places for tanks and anti-aircraft weapons in the desert without any of these being used even for training purposes. The USSR has obviously no interest in recommending to the army officials in underdeveloped countries weapons suitable to the conditions of those countries. Undoubtedly, the USSR follows in this the wishes of the ruling military class in underdeveloped countries, whose officers are intent mainly upon military equipment that is as heavy and modern as possible. In taking the modernly equipped armies of the Eastern industrial countries as a model, the underdeveloped countries often forget, as is obvious from conversations with officers in these countries, that the army, under the conditions

of underdevelopment should not only serve prestige and defense purposes but also aid in the economic and social development process of the particular country. The officers responsible are diverted from this latter task just through the delivery of heavy military equipment; they cannot include the army in the educational process or use the army to train development groups which can carry on development projects in the villages after release from the army.

The reorganization of Soviet military forces, which expresses itself also in the gradual release of one million soldiers, resulted in the accumulation of a large amount of conventional weapons which cannot be used any longer in the Soviet Army. It is probable that the USSR will export these weapons to underdeveloped countries and that the military aid of the Communist bloc will thus be considerably increased in the next few years. On the other hand, it must be noted that the Soviet government reacted very cautiously to Cuban wishes for further arms shipments in early 1960. But several weeks later, Egypt received the most modern fighter planes and Iraq a number of torpedo boats which are to be supplemented with further shipments for the formation of an Iraqi navy.

#### Characteristics of Communist Bloc Aid

It is characteristic of Communist-bloc policy vis-a-vis the underdeveloped countries that those procedures are avoided which in the years past handicapped Western aid programs. Before the beginning of the aid programs, the USSR studied not only the conditions in underdeveloped areas but also the strengths and weaknesses of Western aid programs. The Communist bloc was thus in a position to avoid the mistakes and errors of Western politics which lead to disappointments both in underdeveloped countries and in the Western industrial countries themselves. Such studies also pointed up certain features of Communist aid which were in contrast to Western programs and could thus be exploited for propaganda purposes. The Communist bloc was aided in these efforts by the fact that the Western countries had to gather first-hand experiences in the post war years and that the West was often compelled to bring diverging interests into harmony. The often unjustified complaints heard in underdeveloped countries with respect to Western aid programs were very cleverly exploited by the Communist bloc in its own actions. An example may shed some light on this matter:

Various underdeveloped countries complained particularly with projects carried out by Western private firms that certain equipment parts were delivered and invoiced even when it was possible to obtain these parts in the underdeveloped country itself. This led the Communist bloc to emphasize in all negotiations with underdeveloped countries that it would deliver only such equipment and installations as could not be obtained in the underdeveloped



country under any circumstances. Sometimes a clause was inserted in the contract which obliged the underdeveloped country to furnish as far as possible all required materials and services from its own resources. The authorities in underdeveloped countries were often astonished about the precise suggestions regarding the manner in which shipments from the Communist bloc could be kept small and how the facilities existing in the country could be used as far as possible for the project underdiscussion.

#### Utilization of Emergency Situations

Particularly in the first years of foreign aid, the actions of the Communist bloc were almost always based upon crisis situations, which resulted from given world market conditions, as well as from the "errors" of Western politics, which were often errors only from the point of view of the underdeveloped country. For example, when the world market situation with respect to rice was very unfavorable for the producing countries in 1954, the USSR and other Communist countries offered Burma -- one of the largest rice-producing country -- to import large quantities of rice. These promises were at that time taken by Burma as a real aid for development. Even if Burma became rather disappointed with Communist bloc trade, these imports nevertheless represented the beginning of Communist aid for Burma. The Communist countries behaved similarly towards Iceland with respect to fish products and towards Egypt with respect to cotton exports.

But foreign aid did not only begin in the economic sector with the exploitation of certain "market conditions." In the difficulties that arose between Egypt and the Western industrial countries, leading eventually to the Suez crisis, the Communist bloc took an early part through making shipments of military equipment. The military aid of the Communist bloc is almost exclusively based upon the exploitation of political situations which prevented the Western countries, for example, from fulfilling the wishes of various underdeveloped countries for arms shipments. Thus, arms could not be delivered to Egypt because it would have increased the danger of an attack upon Israel. Similar conditions obtained in Afghanistan which is politically sharply opposed to Pakistan. In Indonesia it was feared that certain radical groups would be enabled by Western arms shipments to expand domestic difficulties into civil war. In all these cases, the USSR secured for itself the beginning of friendly relations on the basis of unconditional shipments of arms, thus politically outmaneuvering the Western industrial countries.

The more intensive the relations between the Communist bloc and the underdeveloped countries become, the less opportunity there will be for the exploitation of certain economic and political crisis situations. The greatest part of Soviet credit promises in the last few years, e.g., the large credits to India and Egypt, are no

longer based on the exploitation of such situations. As far as the policy mistakes of the Western countries are concerned, it must be noted that the Western countries are active in all areas of foreign aid in practically all underdeveloped countries and that this necessarily -- particularly in former colonies and areas still politically dependent -- often leads to decisions which prove unacceptable to the underdeveloped countries. In contrast, the Communist bloc has so far been active in only a few underdeveloped countries and that to an extent which in most cases does not correspond to the extent of Western efforts. The opportunities to make mistakes and cause difficulties has thus been far less for the Communist bloc up to now than for the Western countries. The advantages, which the Communist bloc has drawn from crisis situations, will become fewer the more intensive the relations to the underdeveloped countries grow. Indeed, the time may not be far off when the Western countries may be able to gain advantages from false moves of the Communists, at least in those countries which trade heavily with the Communist bloc and also receive economic aid from that quarter. Finally, it must not be overlooked that the Western aid programs will be furthered and improved through the existence of the foreign aid programs of the Communist bloc.

#### Methods Used to Begin or to Intensify Relations with Underdeveloped Areas

The analysis of Communist financial aid according to receiving countries has shown that the predominant part of financial and technical aid was granted to countries which possess relatively high economic potential and a large population. More than one half of Communist aid went to such countries, i.e., India and the UAR. But this does not mean that the Communist bloc has neglected relatively small and politically insignificant underdeveloped countries. From the last seven years of Communist aid, one can rather draw the conclusion that Soviet efforts were concentrated on countries where even relatively small amounts of foreign aid would be of great importance because of the small size of those countries. Yemen, for instance, received credits of only 50 million dollars; trade agreements were also kept small because of the modest export potential of this country. Nevertheless, Communist aid for Yemen was highly effective. A growing part of the foreign trade is already conducted with the Communist bloc, almost all the large development projects are carried out by the Communist bloc, and the number of Communist experts is many times that of Western experts. Thus, the Communist bloc was able to gain a foothold in Yemen without making great expenditures. Conditions are similar in Afghanistan which, however, has always belonged geographically to the traditional sphere of Soviet influence. In both countries, the Communist bloc was also able to create opportunities for in-

tervention in domestic politics through the granting of military aid.

Irrespective of whether or not the Communist bloc utilized a particular crisis in establishing relations to an underdeveloped country or based its decisions upon the differential political and economic importance of the underdeveloped country, the Communist countries use different methods of approach corresponding to prevailing conditions. Four such methods may be distinguished

First: With a number of underdeveloped countries the approach consisted in beginning trade relations only, or expanding the existing volume of trade. This method has been used in recent years with countries in Latin America. Before the signing, in 1958, of an agreement concerning technical and economic cooperation and the granting of a 100-million dollar loan to the first Latin American country (Argentina), the Communist bloc had signed already six years earlier trading contracts with Latin American countries, for example, the contract between Czechoslovakia and Brazil (1952), USSR-Argentina (1953), USSR-Uruguay (1956). Thus, the Communist bloc began only relatively late to offer economic aid to Latin America. Besides Argentina, Cuba was offered development credit (100-million dollars in February 1960). The intensification of the Communist efforts toward Latin America since 1959 leads one to expect additional offers to Latin America, probably to Brazil before long. (It is interesting to note in this connection that even political groups in British-Guiana are already striving to secure economic aid from the Communist bloc.)

Second: In several cases, the method of approach consisted in the granting of military aid. Trading followed as a consequence of military shipments which had to be repaid in the form of goods. Economic aid in the form of credits and technical assistance was then also introduced relatively late. This was particularly true for the Arabic areas, especially Egypt and Syria, whose heavy trading with the Communist bloc during the first years can be attributed almost exclusively to the necessity of paying for arms with the shipment of goods. The loans made to Egypt and Syria have made an impact on the export trade of these countries only since 1959.

Third: A number of underdeveloped countries were approached by the Communist bloc, especially the USSR, through offers of generous aid which then resulted in an intensification of the exchange of goods. The economic and technical relations with India, Indonesia and Ceylon were thus really established only through the granting of Soviet credits.

Fourth: Countries which have just gained their political independence or -- as in the case of Iraq -- offered particularly favorable conditions for establishing close contacts because of revolutions at home, are approached by the Communist bloc with all methods simultaneously. This form of establishing relations with

underdeveloped countries will be particularly important in years to come, when former colonies will gain their political independence. In 1960 alone, at least five new nations will be founded in Africa (Cameroon, Togo, Nigeria, Congo and Somalia). Thus it is very important today to gain some understanding of the methods used by the Communist bloc to gain a foothold in such countries. The example of Guinea, which became independent in 1958, shows how carefully the Communist bloc follows developments in the countries just about to gain their independence and how very skillfully the Communist bloc uses all political and economic weapons at its command in these cases. Because of the fundamental importance which the case of Guinea will have in the next few years, it will be described here more fully.

#### The case of Guinea

The young republic of Guinea was faced in October 1958 with practical ruin through the sudden blocking of French aid, the departure of French officials and troops and through the cessation of economic relations with France. The actions of the Communist bloc, which began immediately, were thus all the more important. While France asked its allies to watch developments in Guinea first, thus bringing about the temporary isolation of that country, all Communist countries together with the Afro-Asian nations gave immediate recognition to Guinea. Only a few days later, a comprehensive exchange of delegations began between the Communist bloc and Guinea. Diplomatic representation was arranged for rapidly, so that within a few weeks almost all the Communist countries were represented in Guinea. Since Guinea is economically largely dependent upon its traditional export products, the arrival of trade delegations from the Communist bloc was particularly welcome. A few weeks after independence, in November 1958, trade or exchange agreements were signed with Czechoslovakia and East Germany. The agreement between Guinea and East Germany signed 17 November 1958 arranged for trade and cultural exchanges, as well as the establishment of trade delegations. It specified shipments of textiles, which before had come almost exclusively from France, consumer goods, chemical products and light industrial equipment against bananas, coffee and vegetable oil produce. The agreement with Czechoslovakia specified a similar line of goods.

Since the French armed forces left the native troops in Guinea practically without weapons, the government was particularly relieved when Czechoslovakia was immediately prepared to ship 2,000 rifles and armored vehicles to arm at least a part of the troops, so that these could deal with possible sources of disquiet. At the same time, Czech officers were sent as instructors to Guinea. When trade agreements were also signed in February 1959 with the USSR and Poland, a standstill of economic activity in Guinea was

prevented and the sale of traditional export products was secured. The greatest danger facing the young nation, namely that of economic and political isolation through France, was thus removed.

Half a year later, in June 1959, a trade agreement was signed with Hungary and in the following month an agreement with Czechoslovakia which is to run to the end of 1961. The USSR then offered the government of Guinea in August 1959 a credit in the amount of 140 million rubles at an interest rate of 2.5% for a period of 12 years. This agreement was signed in October. In conjunction with the trip of the President of Guinea through a number of Communist countries, the USSR reached an agreement in November with Guinea on cultural exchange programs which are to include the exchange of information in the fields of literature, the arts, science, education and sports, as well as the mutual exchange of delegations of experts, students and teachers.

An agreement was signed in November 1959 with Czechoslovakia which also included arrangements for scientific and technical cooperation.

It is significant that the trade agreements between the Communist bloc and Guinea offered practically all the goods essential for Guinea from the Communist countries and that the traditional export products of Guinea were accepted as payment for these shipments. For example, the USSR is to deliver industrial equipment, engines, agricultural machines, metal products, petroleum products, lumber and various other products, partially within the framework of the credit agreement. In exchange, Guinea is sending coffee, bananas, pineapple, vegetable oil produce, etc. A number of Communist experts have arrived in Guinea within the framework of the trade agreements. Thus, the director of the agency administering the mines is a Polish engineer, Soviet geologists are working at an inventory of natural resources, Czechoslovakia has assumed the training of skilled workers and offered a number of scholarships for university studies in Czechoslovakia, Chinese advisers work on the improvement of rice fields. A shipping line between Leningrad and Conakry was also established.

This example shows that the Communist bloc entered Guinea with its entire arsenal of economic and political resources. The actions of the Communist bloc reached from the immediate and unconditional political recognition and the installation of diplomatic representatives over the immediate signing of exchange and trade agreements to generous offers of financial, technical and military aid. The Communist bloc thus gained enormous influence in an area in which two years earlier no one even thought about the mere appearance of the Communist bloc. The case of Guinea shows how much the West must reckon with the determination of the Communist bloc to use its entire influence and resources with foresight and concentration particularly in those African areas which will receive their independence in the next few years.

### Centralized Organization of Foreign Aid

The concentrated application of all economic and developmental means to all critical points is made possible by the centralized organization of foreign aid which, like all institutions of the Communist bloc, is organized according to the principles of a centrally planned economy. In some East European countries, the ministries of commerce are the fountainheads for all questions of foreign aid. This is justified in these countries particularly because the granting of financial and technical aid occurs most often in conjunction with trade transactions. In the USSR, on the other hand, a special State Committee for Foreign Economic Relations was established in 1957 under the Soviet Council of Ministers. This Committee is the highest authority of the Soviet foreign aid organization. All important negotiations with underdeveloped countries are conducted by one of the members of this committee. The granting of military aid is also in its hands. The various departments of this administration are based on geographical and factual areas (e.g., industrial problems, transport, agriculture, etc.). Beyond this streamlined organization of foreign aid in the various Communist bloc countries, the common Communist system guarantees also the rapid coordination of special political actions to be taken within the framework of the entire Communist bloc. In the economic area there is still a lack of a central coordinating agency, although CEMA allows a certain amount of Coordination which can also be effective for the foreign aid effort (this will be discussed in greater detail below).

The centralized organization of foreign aid, typical of the Communist system of government, allows not only the concentrated application of all forms of aid but allows the authorities of the Communist bloc also to engage in long-term planning of their actions toward the underdeveloped countries. In this undoubtedly lies a certain advantage as compared with the organizations in the Western countries where the responsible administrations must rely upon the yearly appropriations of the budget. Of particular propagandistic value vis-a-vis the underdeveloped countries is also the fact that the mass media in the Communist bloc are centrally controlled while in the Western countries governmental efforts with regard to foreign aid are open to public attack and criticism by the press and radio as well as by the various lobbies, taxpayers, etc. Such criticisms are then reproduced in the press of the underdeveloped countries where they evoke the impression that the Western countries are not really prepared to help the underdeveloped countries without "attaching strings."

The centralized organization extends also into the purely technical areas concerned with the execution of individual projects. Characteristic of this feature are the two Soviet foreign

trade agencies "Technoexport" and "Techno-promexport." These agencies possess long and comprehensive experience which can withstand any comparison with European-American corporations and advisory organizations. An understanding of the comprehensive activities of these two agencies is conveyed by the statements of the chairman of the "All-Union Association Tekhnoexport", Mr. N. Melnikov (cf. Vnesnyaya Torgovl'ya, Moscow, Vol 27, No 2, February 1957, pages 5-7; cf. also Pravda, Moscow, Vol 48, No 40, February 1960, pages 3-4). Accordingly, until 1957 contracts for the planning and delivery of over 500 industrial installations as well as for the training of workers and supervisory personnel were negotiated, predominantly with other Communist countries but later also with various underdeveloped countries (especially Afghanistan, India and Egypt). A large part of these contracts have been fulfilled in the meantime. Among these installations were 26 factories for the production of steel and steel products, 28 installations for the coal mining industry, 29 for the chemical industry, 60 Diesel and water power installations with a capacity of 4,000-700,000 kw as well as numerous further installations for the heavy and automobile industry, machine industry, food, electrical and pharmaceutical industries, building and cement industries, for telecommunications and railway systems, the film industry, etc. In underdeveloped countries, the following installations were planned or erected: a steel works and a machine tool factory, as well as a series of other industrial installations in India; hydro-power works, dams, automobile repair ships, mills and a large bakery.

This enormous variety of activity spheres is made organizationally possible through the inclusion by the foreign trade agencies of over 40 so-called main suppliers. The latter undertake the technical planning and also carry out geological surveys if so requested, make the decisions regarding the choice of a favorable site and complete all other preliminary tasks. After the acceptance of the project plans and the composition of the equipment necessary for a particular project, the main suppliers and the foreign trade agencies jointly draw up detailed lists of parts which enumerate all equipment, apparatus, materials, etc., necessary for the execution of the project. These lists incidentally are signed and appended to the respective foreign trade contracts. The purchaser is then enabled to strike from these lists all equipment that can be produced in the underdeveloped country itself. Contracts are then given by the main suppliers through the foreign trade departments of the respective ministries to individual producers. The accounting with the sub-contractors as well as the control and inspection of the equipment, and supervision of delivery dates, etc., is also undertaken by the main suppliers. Thus, the manufacturer itself does not appear at all in the external aspects of the transactions. The foreign trade agencies assume the necessary guarantees which

are generally given for 18 months from date of shipment and for 12 months from the date of the beginning of operations.

The foreign aid of the USSR for underdeveloped areas is thus based predominantly upon an organization which has proven itself for many years particularly in the East European countries, in China, North Korea and North Vietnam. The foreign trade agencies are similarly responsible for the central direction of the training of workers and supervisory personnel for development projects. This form of organization also allows the application of industrial standards principles which extends even to the erection of steel and hydropower works. It is significant here that this allows the Communist bloc to deliver even large industrial installations practically ready-made. Even the largest corporations in Western countries can normally not command such a volume. Thus, in the West constant difficulties arise in working with other firms, particularly in employing sub-contractors, which are largely eliminated in the Communist bloc. In underdeveloped countries, the impression is thus often created that the industry of the Communist bloc shows a better performance than industry in Western countries. This impression is often reinforced by the fact that the financing is often organizationally separate in Western countries from the planning and the latter separate from the actual execution of the project. For example, if the USSR undertakes a project, there is practically only one representative, namely the foreign-trade agency, while otherwise it is necessary to negotiate separately with banks and governments regarding financing, with advisory organizations regarding planning and with industrial firms regarding the technical execution of the project.

It follows also from the centralized organizational form that all transactions within the foreign trade program are made under standard conditions at least for each individual Communist country. For example, the USSR often uses the general formula "general conditions" to simplify the ratification of an agreement. These conditions regulate all legal relations between supplier and purchaser, i.e., between the legal parties which are immediately responsible for the fulfillment of the contractual obligations. They specify further the execution of planning activities, the sending and payment for Soviet specialists, the delivery of machines, equipment and building materials, the handling of claims, the technical training of foreign specialists in the USSR, the accounting procedures between supplier and purchaser, the arbitration of possible difficulties, etc. The use of patents and licenses, for which compensation is usually not demanded, is also regulated according to standard considerations (see Note).

([Note:] Thus, the agreement with Egypt, dated 29 January 1958, states that the Soviet organization is handing the government of the Republic of Egypt plans and descriptions of technical proces-



ses necessary for the starting of production of the installations delivered by the Soviets. The documents are gratis except for the cost of producing them and sending them to Egypt. The clauses concerning the use of patents and licences usually contain the stipulation that these documents may be used within the boundaries of the given country for the manufacture of goods in the installations built with Soviet aid, but that they may not be transmitted to any "natural or legal" persons outside the boundaries of the country.)

#### CEMA Tasks Within the Framework of Foreign Aid

The question whether or not the economic aid of the entire Communist bloc is centrally directed cannot be unequivocally answered. Undoubtedly, the ministries within the Communist bloc responsible for foreign aid exchange ideas intensively whereby directions from Soviet agencies must probably be followed by the ministries of the East European countries. In addition, there are a number of agencies within the Communist bloc which are responsible for the integration of economic aid efforts. The best known of these is the Council for Economic Mutual Assistance (CEMA), which was founded in 1949. The authority invested in this organization, to which China and the other Asiatic Communist republics do not belong, has generally been exaggerated. The agreements and conclusions reached by the Council are not legally binding on the various partners. They must be taken rather as recommendations. It has not been possible to date to achieve closer economic integration through CEMA. For example, there is still no free convertibility of the currencies of the Communist bloc (for a comprehensive report on CEMA, see Theodor Zotschew, "The Council for Economic Mutual Assistance (COMECON) as an Instrument for the Economic Integration and World Economic Expansion of the Communist Bloc," in Sudost-Europa-Jahrbuch, Munich, 1958.) It is characteristic of the limited function and efficacy of CEMA that it has not been possible after more than a decade to remove the differential tariff systems of the various Communist countries or to remove altogether the use of tariffs in the exchange of goods between the countries of the Communist bloc. There are also no common price levels for goods exchanged among the Communist countries, prices are rather set according to prevailing world market prices, as they have always been.

These facts show that one should not over-estimate the effect of CEMA on the trade and foreign aid for underdeveloped countries. Nevertheless, the actions of individual Communist countries in underdeveloped areas are frequently brought into agreement with each other also in the economic sector. This coordination is at least partially accomplished through CEMA. It may be noted that the Communist countries do not compete with each other in under-

developed areas. The offers of economic and technical aid are frequently discussed between the Communist countries so that a very firm offer can be made to an underdeveloped country from the very beginning (cf. also Karl C. Thalheim: "Methods and Problems of the Payments System in the Communist Bloc," In Osteuropa-Wirtschaft, Vol 4, July 1959, page 1 ff.) The agreements with underdeveloped countries sometimes also contain clauses specifying that the delivery of goods or the granting of technical aid may under certain circumstances also be made by another partner of the Communist country signing the agreement. Such divisions of labor have occurred between Poland and Czechoslovakia and between the USSR and East Germany. A certain amount of specialization has grown up particularly among the East European countries, for example, electrical and precision apparatus in East Germany, mining equipment and railway rolling stock in Poland, arms and certain factory equipment in Czechoslovakia, pipelines and drilling machines to some extent in Rumania.

It is interesting in this connection that at the last meeting of CEMA in Prague at the end of 1959 suggestions were made for a further specialization in the production of important chemical equipment, certain machines and equipment for the sugar, meat and paper industries. This growing division of labor among the communist countries in certain fields will undoubtedly also have implications for the relations with underdeveloped areas. It must thus be expected that Eastern offers of goods or economic aid will cease to represent exclusively the offer of one country but will more and more often represent the combined offer of all Communist countries. The cooperation among the Communist countries will bring about an improvement in performance insofar as each Communist country has the possibility to introduce and contractually secure the special capacities of the other members of the Communist bloc.

#### Excellence of Public Relations Activities

The influencing of public opinion in underdeveloped countries, which is systematically undertaken by the Communist bloc without regard to expense, cannot be exhaustively defined by the term "propaganda." Soviet propaganda reaches into all areas of life and is by no means restricted to politics. Thus, Soviet propaganda does not only repeat that the Communist bloc, in contrast to the Western countries, recognizes the right of every underdeveloped country to its own national independence or that progress in the underdeveloped countries can only be brought about through industrialization ("only the production of the means of production leads to economic independence"). Soviet propaganda adapts itself also very effectively to the circumstances in the economic sector by accusing the Western countries, for example, of exploiting the underdeveloped countries through a monopolistic structuring of world market

prices while at the same time coordinating its own exchange of goods with the underdeveloped countries strictly according to world market prices.

The Communist countries, moreover, also influence public world opinion in an excellent manner with methods usually designated as public relations activities in Western countries. Characteristic of this trend is the generous equipment of diplomatic posts, trade delegations, etc., with money and personnel for public relations. This explains also the successful public-relations activities of the Communist bloc even in those underdeveloped countries where the bloc is not diplomatically represented. Even here, the unofficially represented Communist countries are frequently more successful than the press agents of the diplomatic posts of Western countries. An example is furnished by the activity of East Germany in Brazil, Argentina, Columbia and Uruguay. In all these countries East Germany maintains "trade representatives" which have large staffs and considerable financial means. Their public relations activities does not only include the economic sector but also all kinds of cultural and political tasks. Contacts are made with political parties, unions, as well as theatres, sports clubs, schools and universities. The means of gaining influence in all these areas are usually the generous distribution of brochures, the showing of films, small exhibitions and the organization of lectures. Although East Germany maintains no diplomatic relations with these countries, the above expenditures lead to successes that are by no means inferior to those obtained by the diplomatic representatives of Western countries. All Communist countries invest considerably money in this manner to secure the goodwill of all sections of the population. In the case of East Germany, there is of course the additional incentive of securing economic and political recognition from the underdeveloped countries next to the Federal Republic of Germany (See Note).

([Note:] In recent years, Red China has also taken up an intensive public relations campaign in underdeveloped countries. Her efforts in the Arabian regions is an example. The diplomatic representatives of Red China possess a great deal of Chinese writings in Arabic which are usually given gratis to secondary and college students. A number of well-known Arabian persons have also been invited to Red China. The entire Arab world, including North Africa, is covered by correspondents of the Chinese news agency "Hsinhua".)

The Communist bloc is just as generous in furtherin the exchange of well-known persons of the economic, political and cultural spheres. In this, East Germany is also particularly strongly engaged. There is a constant exchange of delegations of politicians, economists, writers, directors, sportsmen and union leaders. The various

Communist countries have agencies whose whole purpose it is to follow the dates of celebrations, union congresses, teacher conventions, etc., in underdeveloped countries. If it appears useful to send a delegate to one of these occasions, generous funds are provided from the budget for this purpose. For example, the East German labor union sent a delegation to the congress of the Cuban labor union in Havana. This systematic exploitation of such occasions does not only furnish new contacts to the Communist bloc, it also answers the desire of many organizations in underdeveloped countries for international recognition. It thus happens that the only representative from Europe at these occasions comes from a Communist country, and that his statements receive comprehensive comment and praise in the press and radio. The West, on the other hand, considers these occasions to be of provincial interest only. This form of influencing the public opinion in underdeveloped countries has been expanded particularly in recent years.

The Communist countries are particularly successful in working with the press. Study of the newspapers and magazines of underdeveloped countries reveals again and again that the construction of a single cement factory by Czechoslovakia, for example, is repeatedly reported in detail in the press, while the construction of a similar project by Belgium, for instance, hardly receives even a brief notice. Excellent public relations work is also done at exhibitions. The exhibitions in Djakarta, Cairo and Damascus, Mexico City and Havana have shown that the pavillons of the Communist countries, particularly the USSR, are often the most imposing. The equipment shown in these pavillons has not only commercial advertising value (such as models of Soviet industrial installations, television cameras in action, film showings, home furnishings, etc.), and is not only adapted to the mentality of the given population, but is also used consciously as a means of demonstrating that the Communist countries can meet the needs of the underdeveloped nations for industrialization better than the older industrial countries. Besides the USSR, the efforts of the Czechoslovakia and East Germany in this direction are particularly noticeable. Experience with the last exhibitions has also shown that the Communist countries have been successful to eliminate the mistakes which appeared frequently during the first years (at that time, the personnel at the exhibitions was often not in a position to give information regarding prices, delivery times, and spare parts, etc.)

#### Dubious Arguments against Communist Bloc Aid

In discussions of the methods of foreign aid of the Communists, arguments have repeatedly been marshalled which do not withstand more objective analysis. Such arguments can only detract from the creditability of Western methods. They should, therefore,

not be used, particularly, as the present report has tried to show, because there are sufficient points which may be reasonable criticized. A number of these arguments are described here because they also throw additional light on peculiarities of Soviet methods.

An argument often repeated in Western publications holds that the technicians and advisers from the Communist bloc working in underdeveloped areas spread Communist propaganda there and that students from underdeveloped countries at universities in the Communist bloc are subjected to indoctrination. From conversations with students who have studied in Communist countries, as well as with economists and technicians who have worked with Communist experts in underdeveloped areas, it is clear that this argument is not true. One can see particularly in India and Egypt that the Communist experts working in those countries have apparently explicit instructions to stay away from propaganda in their conversations with the native population. One also gains the impression that the Communist experts are quite disinterested in discussing political issues with the native population. Indian students, for example, who have studied at the University of Moscow have also made the experience that neither their fellow students nor other Soviet citizens began a political discussion on their own. (The Chinese in Yemen, however, seem politically more active. Thus, the Yemenites working with Chinese in road construction sing songs with revolutionary texts while working. The foreman, for example sings: "The Chinese are building us a new road" and the chorus of workers answers: "A new time is beginning for us now.")

Another argument states that the Communist bloc, in contrast to the foreign aid program of the US or the loans made by the World Bank, does not apply strict standards in granting credits. This interpretation is not correct in this form. It is well known that the detailed studies made by the World Bank or the foreign-aid program of the US before credits are granted have often led to criticism and misunderstanding in underdeveloped countries, particularly when the investigations lead to an eventual rejection of the particular project and the loan. In contrast, so it is often argued, the Communist bloc will often forego such investigations and offer to finance without consideration of the economic circumstances just those projects rejected by the West. The Aswan dam in Egypt is often cited to support this argument. It would be a mistake to conclude from this that the Communist bloc does not undertake careful pre-investigations. On the contrary, it has been repeatedly shown that the responsible agencies of the Communist bloc proceed more carefully, even more bureaucratically, than the corresponding agencies in the West. Before the Communist countries undertake a project, the proposal is investigated in all details. For example, each piece of equipment is carefully entered into lists which are negotiated with the underdeveloped countries. The thoroughness of the contracts which go into the minutest detail prove

that the Communists undertake preliminary investigations and planning with the utmost care.

The differences are only that the Communist bloc makes an inclusive offer for financing and delivery of equipment in the beginning in the form of an over-all agreement which, while making first as many concessions to the underdeveloped country as possible, does not contain any approval for individual projects. Rather, the possibility exists at all times to replace the individual projects listed in the overall agreement by other, improved projects after preliminary investigations and negotiations with the government of the underdeveloped country. Thus the impression is false that the Communist bloc agrees to each request from underdeveloped countries without hesitation. The individual projects listed in the over-all agreement may be altered at any time or be dropped altogether.

It must also be considered in this connection that the planning groups of the Communist countries on basis of their experiences with building their own economy are often guided by principles which do not correspond to the traditional concepts of productivity and profit as understood in the West. Traditional economics has often declared that the Soviet methods of industrialization with emphasis on basic industries is not compatible with the principles of productivity and profit. Undoubtedly, the Soviet Union has often taken steps to erect a steel plant, for example, in an area which would not have been selected by private industry. Without going into too much detail, it must be noted here that Soviet planners in underdeveloped areas often come to different conclusions in the same way when evaluating an individual project than, for example, the planning departments of Western private industry. If, for example, Western organizations come to the conclusion that the building of a steel plant in Indonesia would entail the waste of scarce foreign exchange and that the usefulness of such a plant would not be realized in the foreseeable future, Soviet planners could come to the conclusion that Indonesian demands for the erection of shipyards and the production of metals for the shipbuilding industry in their own country makes the building of a steel plant absolutely necessary. It would, therefore, be a mistake to criticize Soviet planners -- when they come to different conclusions than Western planners -- for encouraging the desire of many underdeveloped countries for an exaggerated and unsensible industrialization. One must also realize that investments in industrial countries do not any longer require outlays for "social investments" or "development costs" as similar projects do in the USSR and in the underdeveloped countries. Many projects in underdeveloped areas may thus appear unfeasible from the point of view of private industry, but Soviet planners can still come to the conclusion that such projects are economically sound when considering "development costs."

Finally, one should point out another argument stating that Communism finds the best conditions for its development in those

areas where the population subsists under marginal circumstances. From such an argument, it is possible to infer that the Communist bloc has no real interest in the development of economic and social conditions in Asia and Africa. On the other hand, there can be little doubt that the foreign aid of the Communist bloc contributes to the improvement of living and production conditions in underdeveloped areas. To remove this contradiction, the argument points to those examples of Soviet foreign aid which did not result in an increase of the productivity of underdeveloped countries but only provided spectacular showpieces of Soviet foreign aid, e.g., the construction of a sports stadium in Burma and the asphalt covering of the streets of Kabul). Such projects, however, constitute only a small part of the constructions financed from Soviet loans (see Note).

([Note:] If the above Western argument were true than the Soviet argument that the large foodstuff shipments under US foreign aid programs are made in an effort to preserve the dependence of the underdeveloped countries and to prevent the industrialization of those areas would also be true.)

It would seem more correct to observe that most underdeveloped countries are presently in an early stage of economic and social change, that every form of foreign aid accelerates this change and that the greatest chances for Communism will come only when this process of change is further advanced. Only when the economic and social conditions of an underdeveloped country are removed from traditional circumstances by some measure of industrialization to such an extent that considerable migrations to the cities set in, creating a larger and larger social vacuum, only then will Communism have the opportunity to influence people who have been removed from their customary surroundings on a larger scale. Following this line of thought, the foreign aid of the Communist bloc may be considered as a means for gradually creating the conditions conducive to spreading Communism in underdeveloped areas. In other words, the thesis that the conditions for Communism are better the more inferior the economic and social conditions must be modified with respect to underdeveloped areas insofar as at the present stage any material progress still enlarges the social vacuum and thereby improves the opportunities for the spreading of Communism. Soviet theory is in accord with this line of thought. The present leadership in most underdeveloped countries is considered by the Communist bloc as a nationalistic, bourgeois-democratic form of government which must precede the Communist revolution.

#### Prognosis of Future Relations of the Communist Bloc to Underdeveloped Areas

A prognosis of the course of future relations between the

Communist bloc and underdeveloped areas will take required fundamental considerations at two levels: at the material level of exchanging goods and foreign aid as well as at the ideological level of political-social principles. Such a prognosis is, however, fraught with difficulties since the various problems are closely dependent upon global political decisions which will be made during the next few years. The reader can also not expect to find in the following pages calculations about the future quantities and values of the exchange of goods and of foreign aid. Since the quantitative description of the activities of the Communist bloc during the last seven years is already problematic, a quantitative prognosis of future developments would be mere speculation. The following discussion treats, therefore, only those economic (trade and foreign aid) and political-ideological (spreading of the Soviet system to underdeveloped areas) development trends whose beginnings are already noticeable today from the practices of the Communist bloc in underdeveloped areas. Beyond that, the discussion particularly of political-ideological questions are based on a study of the political, economic and social problems in underdeveloped countries because the present and future conditions in these countries will decide whether or not these countries will be "seduced by the Soviet system."

#### Trends in Trade and Foreign Aid

There is no doubt that the Communist bloc will shift its competition with the West more into the economic sector. The increasing activity of the Communist bloc in underdeveloped areas shows that the emphasis of this economic competition will lie in Asia, Africa and Latin America. All economic actions of the Communist bloc are based almost exclusively upon foreign trade, also the foreign aid program -- as was shown earlier -- is only a part of foreign-trade policies. Since the exchange of goods between the Communist bloc and the underdeveloped areas has had an explosive development during the last seven years, the next decade will undoubtedly show a further growth in these foreign trade relations. The increase of this exchange of goods between the Communist bloc and underdeveloped areas will not only be a result of the development credits granted by the Communist bloc, which are only now gradually coming into effect. Rather, there are other trends to be noted which may lead to an expansion of the exchange of goods.

#### Growing Capacity of Absorbing certain Products of Underdeveloped Countries Only

The capacity of the Communist bloc for absorbing the products of the underdeveloped countries is of decisive significance for the future development of trade relations between the Communist bloc and the underdeveloped countries. Even if the foreign trade conceptions



of the Communist bloc have changed considerably during the last decade, it cannot be expected that the Communist bloc will give up the principle of self-sufficiency in economic matters. The production of such essential raw materials as coal, iron ore or grain will certainly not be reduced in favor of imports and increased investments in the export industry. Furthermore, the underdeveloped countries would not be in a position to deliver larger quantities of coal, iron ore of high concentration or grain. It is conceivable, however, that iron ore will be delivered to such Soviet iron and steel plants which are unfavorably situated from the point of view of domestic lines of transportation but are highly accessible from underdeveloped countries. But these will be exceptions rather than the rule.

Temporary opportunities for sale in the Communist bloc may be found for another group of products from underdeveloped countries. This applies particularly to products such as cotton, wool, oil seeds, etc. The Communist bloc would be in a position to import such raw materials in larger quantities from underdeveloped areas, but such a policy would be incompatible with the principle of autarchy. Relatively high Communist imports of wool and leather from Latin American countries at present must not give the impression that the Communist bloc is not planning to become largely independent in the supply of these raw materials by 1965. Those underdeveloped countries which deliver such products to the Communist bloc today will presumably experience great disappointments already a few years from now. Similarly, sugar deliveries from Cuba are unlikely to be of a long-term nature, even if the USSR has made promises for a period of five years. Soviet sugar production particularly is to be increased in the next few years to such an extent that domestic supplies will be sufficient. On the other hand, it must be considered that there will be an increased demand for cotton, wool, sugar, oil seeds, etc., because of the rising standard of living in the Communist bloc. This may lead to a certain demand for imports even on a long-term basis. Even if the Communist bloc satisfies only 5 or 10% of its total demand for these raw materials through imports from underdeveloped areas, the export possibilities of the underdeveloped countries would be affected because of the large production and consumption volume of the Communist bloc.

A significant increase in the absorption capacity of the Communist bloc would probably only arise for certain specific products of certain underdeveloped countries. These would be products which are urgently needed for a higher standard of living of the population of the Communist bloc but which could also be eliminated in times of need. To these products, which are in a sense independent of the principle of autarchy, belong tropical fruits, coffee, cacao, tea, etc. The capacity of the Communist bloc for these products cannot be evaluated on basis of current levels of consumption but must be calculated in connection with the intended raising of the stan-

dard of living. The consumption of cacao, coffee, tropical fruits, etc., in most Communist countries today is insignificant. In exchanging goods with underdeveloped areas, they carry practically no weight. But if the buying power of the masses in the USSR and in the East European countries is raised in the course of the next few decades to the extent that in 1970 100- or 200-million consumers reach a similar standard of living and a similar composition of the consumer public as existed, for example, in West Germany during 1955, the capacity of the Communist bloc for these products would rise tremendously. The additional demand resulting from such a development would reach considerable heights, particularly since the present per capita consumption of these products in the Communist countries does not even reach a tenth of the per capita consumption of the Western countries. In view of the rising production of these products in underdeveloped countries and in view of the increasing foreign trade between the underdeveloped countries and the Western industrial nations, it cannot be expected that the above developments will lead to great shifts in world trade relations. In individual cases, however, the consequences would be considerable. For example, when the Communist bloc is in a position -- possibly even during times of weak world market prices -- to purchase 60-80% of the cacao production of Ghana, half of the Brazilian coffee harvest, the predominant part of the production of bananas in Guinea and the Cameroons, or even the total production of East African coffee or the total tea harvest of Ceylon (particularly after nationalization of the tea plantations of Ceylon), then the Communist bloc would win in these underdeveloped countries a position similar to the one occupied now with respect to the export position of Egypt, which is still an exception. Such considerations are by no means utopian. Thus, it was unthinkable even ten years ago that Egyptian oranges, for example, would be sold in Moscow. But already three years ago, the USSR began to buy the orange harvests of entire Egyptian plantations.

Particularly in view of the continuing concentration in the planning of the Communist bloc upon production areas such as industrial equipment, the growing capacity of many underdeveloped countries to export simple consumer goods assumes increased importance. The import of simple consumer goods would also not violate the principle of autarchy because they could be discontinued in times of crisis. Naturally, the capacity of the Communist bloc for the production of simple consumer goods will be expanded considerably in the coming years, but in view of the magnitude of the increasing consumption, imports of only 5 or 10% of the total demand would already have far reaching implications. For example, through the purchasing of Egyptian cotton fabrics and Indian cloth, of fountain pens, pocket knives, light bulbs, typewriters, radios, footwear, etc., the Communist bloc could not only create opportunities for the payment of its exports to underdeveloped areas, but also profit from such

international trading in that it could continue to concentrate on the development of heavy industry, the manufacture of machines, etc., which would lead to the best possible utilization of its investments and ensure at the same time that its potential for defense production would not have to be curtailed. The underdeveloped countries would finally find a market for products which already during the next decade must be increasingly included in any export program. In view of the difficulties created by certain interest groups in Western countries regarding the import of such products from underdeveloped areas, the export of these products to the Communist bloc would be of the greatest importance to the underdeveloped countries.

This must of course not lead to the conclusion that the Communist bloc will be ready within the next ten years to purchase products from underdeveloped areas to the same extent as the Western industrial countries. If the foreign trade of the underdeveloped countries with the Communist bloc amounts to only 3-4% today, it would not be utopian to conclude on the basis of the foregoing trends that in five to ten years these shares will perhaps run to 10-15%. There will be repeated disappointments for the underdeveloped countries with respect to individual raw materials. It is also possible that there will be considerable shifts in trade policies on the basis of changes in the planning of the Communist bloc. But on basis of the increasing capacity of the Communist bloc for certain luxury foodstuffs and certain simple consumer goods, there will probably be a not inconsiderable increase in Communist imports from underdeveloped areas.

The conclusion that the import capacity of the Communist bloc for certain products from underdeveloped areas will rise considerably in the next decade does not contradict the opinion of most experts that the possibilities of East-West trade are generally highly overrated. The present East-West trade is based primarily upon an exchange of goods between the Western industrial countries and the Communist bloc. The skepticism concerning an increased East-West trade expansion refers to the latter exchange of goods and less to the future trade with underdeveloped areas. As was shown previously, the predominant part of the increase in trade between the Communist bloc and the rest of the world may be attributed, since 1955, to certain underdeveloped countries. If the foreign trade planning figures of the Communist bloc specify until 1965 predominantly an intensification of trade between the various Communist countries and only a small amount of growth with other countries, it is nevertheless true that the last mentioned growth is planned to be an expansion of trade with underdeveloped countries.

### Conflict with the Export Interests of Certain Underdeveloped Countries

An evaluation of the development trends with respect to the export capacities of the Communist bloc must also take into account the various kinds of goods. Even though the production of industrial installations and machines remains as the emphasis of Communist production and even if expansion plans continue to concentrate upon these sectors, the share of such exports in the total production will remain small for the time being. This means that on the one hand, it will not be difficult for the Communist bloc to export these relatively small shares of a large production volume to the underdeveloped countries and that, on the other hand, it cannot be expected that the Communist bloc will get a share of underdeveloped markets equal to that now held by the Western industrial nations. But although the Communist bloc has shipped heavy industrial equipment and machines up to the present only to a small number of underdeveloped countries (India, Egypt, Syria, Iraq, Indonesia), it must be expected that more and more of these products will be imported also by the African and Latin American underdeveloped countries from the Communist bloc.

But it is not sufficient to consider only industrial products in an evaluation of the export capacities of the Communist bloc. The USSR particularly will also export agricultural and industrial raw materials and not only the traditional products, such as lumber and manganese, but also grains, zinc, crude oil, mineral oils, aluminum, etc. Possibilities of conflict with the export interests of certain underdeveloped countries are existing for these product groups.

For example, this danger exists for the Arabian export countries. The USSR has expanded her crude oil production in recent years to such an extent, planning also a doubling by 1965, that there is already today an excess for export. At present, the USSR is able to export about 10 to 15 million tons of crude oil into non-Communist countries. It is not unlikely that these exports can reach a magnitude of 30-50 million tons in the near future (per year). Possibilities for the export of Soviet crude oil exist in North Europe but also in various underdeveloped countries (cf. the trade agreement between the USSR and Brazil which is primarily concerned with Soviet deliveries of mineral oil products). Indications are that the USSR will push the export of crude oil in the next few years very strongly. At the moment, the USSR is preparing facilities for the shipment of oil in large quantities. A pipeline system is being built from the Ural-Volga oil centre to Baltic Sea ports, which could provide an outlet for shipments to Northern Europe. After completion of that pipeline system, the USSR would not need her port facilities at the Black Sea for her export to North and

East Europe so that these would be free for shipments to underdeveloped areas (supplied from the Baku fields). Increased Soviet oil shipments to Northern Europe as well as to underdeveloped areas will necessarily have implications first for the traditional export countries, particularly since increased exports of oil are also expected from the Sahara. The USSR would then be in a position to cause deliberate disturbances on the world market by manipulating prices which would force the Arab export countries in particular to come to some arrangement with the USSR. Western oil companies are considering these possibilities already with growing concern.

The USSR has shown already in 1958 that a skillfull export policy can put pressure on underdeveloped countries. The difficulties on the world tin market at that time were caused to a large extent by Soviet tin exports of about 8,000 tons yearly. This interfered with the tin export of Malaya. It is true that the Malayan government pointed out at that time that such conduct on the part of the USSR contradicted her official policy towards underdeveloped countries.

It must thus be expected that the Communist bloc will be in a position in a few years to cause difficulties on the world markets for certain raw materials by pursuing appropriate export campaigns. The possible danger that many underdeveloped countries will cease to believe in the Communist foreign aid program could be considered by the political leadership of the Communist bloc as relatively minor, if it succeeded through appropriate export manipulation and perhaps through a considerable export of gold to undermine the international gold standards to demonstrate to the underdeveloped countries that the present capitalistic world market system runs counter in its planlessness to the interests of the underdeveloped areas (see Note.)

([Note:] The initial expectations that such a development was already occurring with respect to Soviet exports of diamonds were, however, not confirmed. On the contrary, the USSR did not elect to sell Russian diamonds directly on the world market but rather chose to sell through the international diamond syndicate.)

Similar conflicts will arise with an increase in Chinese exports. The exports of Red China in the next few years will be dominated by growing shipments of finished products which are extraordinarily cheap and which also meet the needs of many underdeveloped countries. But a number of underdeveloped countries (e.g., India and Egypt) have also expanded their industries so that they will also switch to the export of simple industrial products. Such exports will have to be channelled primarily into other underdeveloped countries where the Chinese competition is already very strong. It will be decisive that Red China will presumably in a few years sell large quantities of such finished goods in other underdeveloped

countries at very low prices. Thus, there is a danger for those underdeveloped countries which have already industrialized to some extent of being smothered by Chinese exports and of finding no markets in other underdeveloped countries.

#### Increasing Use of Experts from the Communist Bloc

Before drawing conclusions from the preceding discussion, some additional possibilities for the expansion of foreign aid by the Communist bloc must be considered. It will be of some importance that the Communist bloc, on basis of its comprehensive training programs for technicians, engineers and economists, will increasingly be able to furnish to underdeveloped countries a large number of technicians and advisers. In the last two years, the number of experts working in underdeveloped areas has been doubled. If one estimates this number to be about 5,000 today, it would not be unrealistic to expect another doubling of this figure in the next few years, perhaps even a threefold increase. A study of lists of projects which are appended to particular agreements between the USSR and underdeveloped countries leads to the conclusion that the foreign aid programs of the USSR display an increasing emphasis upon training projects. For example, if 4,000 skilled workers are to be trained in training centers financed by the USSR in Iraq, then a considerable increase in Soviet teaching personnel must be expected for Iraq.

The need of underdeveloped countries for well-trained advisers and teachers is practically unlimited. While the Western countries have difficulties, particularly in times of full employment, to furnish a sufficient number of suitable experts for underdeveloped areas, the Communist bloc is able, on basis of its long-term training programs, to fulfill all requests for advisers and technicians. Indications are that the Soviet leadership intends to accelerate this form of foreign aid in the next decade to surpass corresponding aid measures of the West and to furnish a counterweight to the relatively greater financial aid of the West.

#### Foreign Aid a Minimal Burden for the Economy of the Communist Bloc

It is important in the evaluation or prediction of the future volume of Communist foreign aid to decide how much of a burden for the economy of the Communist bloc is represented by financial aid. For statistical reasons, the answer to this question must be restricted to the USSR, a restriction which does not substantially affect the validity of our statements since over four fifth of the total financial foreign aid of the Communist bloc is furnished by the USSR. It is essential to note that such a question really bypasses the core of the problem since, as was shown, the Communist foreign aid is closely connected with foreign trade. This means that

the grants made by the Communist bloc within the framework of its foreign aid program are always reciprocated by shipments from underdeveloped areas. It is to be noted in this connection that Western private industry also allows long-term credits to a large extent and that these long-term transactions with underdeveloped areas are nevertheless profitable. The difference between the transactions of Western private industry and Communist bloc credits is that Western firms charge interest rates of 5-6% on long-term deliveries while the USSR usually only charges interest rates of  $2\frac{1}{2}\%$ .

Undoubtedly, a number of demands arise from these low interest rates as well as from the fact that the Soviet foreign aid program usually allows repayment terms for credits of 12 years. Fundamentally, however, these demands are restricted to the period between the actual use of the credit and its repayment. The repayment of credits as well as the payment of interest usually begin soon after the delivery of the equipment so that the economy of the Communist bloc receives in practice the first repayments already after one year of delivery. On the other hand, it must be noted that the use of these credits takes place over many years. The predominant part of the credits promised by the USSR so far will be taken up only in the next 6-7 years. Thus, the 1.5 billion-ruble credit to India is intended for the Third Indian Five-Year Plan, that is for 1961 to 1966. The 1.2-billion-ruble credit to Egypt for financing the Aswan dam will become effective only during 1960 to 1967.

It is doubtful on other grounds if one can speak of a burden at all in this case. Larger exports are probably already considered in the planning of the Communist bloc for the great expansion of the capacities of these industrial areas which are of long-term interest to underdeveloped countries. If one agrees to this conclusion, the present credit program of the USSR must be considered as a factor of export policy aimed at competition with the delivery and payment conditions of Western firms and at competition for foreign markets. In this sense, the present Soviet foreign aid programs -- aside from its political goals -- are a means to secure today gradually markets for industrial equipment before the Soviet economy is forced to export in order to maintain equilibrium. From this point of view, there can be no question of a burden for the Soviet economy. Rather, Soviet credit aid would have to be considered as a means for the securing and maintaining of foreign markets just as the marketing operations of Western firms are to be considered. Countries like Czechoslovakia and East Germany, furthermore, could probably not get along without such markets.

After these fundamental considerations, calculations can be made concerning the extent to which foreign aid represents a burden to the economy of the USSR. Only relative magnitudes can be given since the published statistical sources are not sufficient for precise assessment. The Soviet gross national product for the year 1959

was estimated at 1,400 billion rubles earlier in the present monograph. The Soviet credit aid was estimated at 2.4 billion dollars which, according to the official rate of exchange amounts to 9.6 billion rubles. The total credits granted by the USSR thus amount to only .69% of the Soviet gross national product of a single year.

Actually, only about 500-600 million dollars, i.e., 2.0-2.4 billion rubles, have been granted in the form of goods and services so far to underdeveloped countries. Even if the actually paid out credits are estimated at 2.5 billion rubles, the percentage of the gross national product for 1959 represented by this figure is only .18%. If, on basis of these considerations, one wishes to calculate the burden on the Soviet economy on a yearly basis, one must relate the above percentage to a five year period, i.e. the years 1955 to 1959. Accordingly, the yearly burden on the economy of the USSR amounts to .036% of the gross national product.

If these figures are compared with those applying to the US, it must be concluded that the burden of financial foreign aid on the Soviet economy, in terms of gross national product, represents only one tenth of the burden on the US economy. (The corresponding figure for the US was estimated to be .4% for the fiscal year of 1957. See J. S. Berliner, Soviet Economic Aid, page 67. And it must be noted again that American foreign aid consists largely of gifts.) If the Soviet economy wanted to "burden" itself as much as the American economy, Soviet financial aid could be increased during the next few years by a factor of ten. Even then an equal burdening of the economy would not result because repayments for credits would set in in the meantime. These repayments would amount to 200-million dollars yearly if all contractual credits had been taken up. In a sense, then, the USSR needs only a foreign aid fund which could be repeatedly applied.

It must be considered further that the necessity to grant economic aid to other Communist countries diminishes for the USSR as the East European countries and Red China develop their own economies. A growing part of the total capacity of the USSR for aid will thus presumably become available during the next years for credits to underdeveloped countries. In addition, a relatively great part of the Soviet gross national product -- as compared to the Western industrial countries -- arises from the production of industrial equipment and installations. In other words, the difference between the Communist bloc and the Western countries is smaller with respect to the production of industrial equipment, which is most relevant for the assistance of underdeveloped countries, than with respect to the gross national products.

In evaluating the future extent and, therefore, the future development of foreign aid, it must be considered also that the foreign aid of the Communist bloc will concentrate in the next few years on less expensive forms of aid, namely upon the training programs already discussed. Under consideration of all factors one must



come to the conclusion that the USSR will easily be in a position to increase its credit aid considerably and to fulfill the delivery obligations arising from such a move. Even a three-fold increase in Soviet credits during the next three or four years would hardly constitute a significant addition to the "burden" on the Soviet economy.

When noting the relatively small proportion of the gross national product comprised by foreign aid, it is necessary to mention at the same time the corresponding figures for the underdeveloped countries which receive Soviet foreign aid in order to avoid an underestimation of the effects on underdeveloped areas. In view of the concentration of the foreign aid of the Communist bloc on only a few underdeveloped countries and in view of the relatively low national incomes of these countries, the following picture emerges. In relation to the respective national incomes, the credits of the USSR of about 550-million dollars to Egypt amount to over 20% (national income of 1956), 810-million-dollar loans to India to about 3% of the national income (1957), the 137.5-million-dollar loan to Iraw to about 16% (1956) and the 180-million-dollar credits to Syria to about 30% (1957). The effects of the foreign aid loans, which are relatively small in relation to the Soviet gross national product, are rather considerable for the underdeveloped countries according to their economic importance.

#### Decline of the Communist Bloc's Advantages

As we mentioned earlier, the Communist bloc will no longer be able, with increasing intensification of its relation with underdeveloped countries, to exploit the mistakes of Western policies or take advantage of crisis situations. On the contrary, it must be expected that the Western countries will be able to make use of the mistakes in Soviet policies. The greater the export of agricultural and industrial raw materials of the Communist bloc, the stronger will be the conflicts with the export interests of some underdeveloped countries. This could easily lead to a situation similar to the one that arose on the world market for rice between Burma and the US and on the world market for cotton between Egypt and the US. The advantages of trading with the Western countries may again become apparent, particularly if the unfavorable situation obtaining on the world market at that time should improve. A decisive disadvantage for the underdeveloped countries in trading with the Communist bloc lies after all in the restrictions on free buying within the Communist bloc and in the fact that there is still no system of convertible currencies with the Communist bloc. The successes of the Communist bloc in foreign trade during the last few years were made possible largely by the difficulties of the underdeveloped countries in disposing of their products. A more favorable development on these world markets, which can partly be brought about by the pur-

chases of the Communist bloc, may restrict the possibilities for the Communist bloc and remove many of the advantages which have led to the success of the Soviet trading offensive during recent years. But in view of the unsuccessful efforts to stabilize world markets up to this time, it must be doubted that the Western countries will be successful to achieve a long-term stabilization of world markets and thus permanently withdraw the advantages, arising from unstable market conditions, from the Communist bloc.

There is also a possibility that the increasing obligations of the Communist bloc will again lead to shortages, which were so characteristic of the first years, and which were only gradually removed in recent times by the strenuous efforts of the responsible agencies. The larger the deliveries of the Communist bloc to underdeveloped areas, the more frequently there may be again delays, shortages in spare parts, unsatisfactory shipments, etc. A very important economic problem of the future will be the growing local currencies accounts of the Communist bloc with underdeveloped countries arising from the growing financial aid of the Communist bloc. This may lead to difficulties of finding sufficient quantities of suitable goods in underdeveloped countries without causing shortages and increases in prices.

The advantages which the Communist bloc derived in recent years from the constellation of political events will probably also be reduced. The possibility to get into political difficulties with certain underdeveloped countries constantly increases for the Communist bloc which would enable the Western countries to exploit these difficulties for their own advantages in turn. For example, if the Communist bloc channels part of its aid to Pakistan, Afghanistan will almost certainly become annoyed. Comprehensive aid to Ethiopia, as planned by the Soviets, may bring about difficulties for the Communist bloc with Somaliland which gained its independence in 1960 because the latter may easily get into economic and political conflicts with Ethiopia. The Communist bloc was already compelled, in recent times, to face such problems repeatedly. The cooling of relations between the UAR and the USSR must at least partly be attributed to the fact that the Communist bloc gave comprehensive economic aid to Iraq. Similarly, the relations between Indonesia and the USSR are not facilitated by the conflict between Red China and Indonesia regarding the Chinese living in the latter country.

It has repeatedly been shown that the underdeveloped countries which received their independence after the Second World War are extraordinarily sensitive politically. If the Communist bloc is forced to make decisions under the influence of political events which are not satisfactory to other underdeveloped countries, then these countries will not be prepared to make concessions towards the Communist bloc. The sharp reaction of the UAR toward the propaganda given Syrian Communists in Peking shows that many underdeveloped countries follow their own policies and independence toward

the Communist bloc as much as they have hitherto followed them toward the Western countries. The more intensive the relations of the Communist bloc to all underdeveloped countries become, the more difficulties will have to be faced by the Communist bloc. And these difficulties will be much like the difficulties faced by the West in the past. In this connection, the US in particular has already overcome its greatest trials with respect to relations to underdeveloped countries, namely the "ungratefulness" of many underdeveloped countries which did not prevent the US from continuing with its generous aid programs. Such trials are still to be faced by the foreign aid programs of the Communist bloc in the years to come.

Similarly, Soviet propaganda will not find it as easy to build goodwill for the Communist bloc as in the years past. A main argument was, for example, that the investments of Western countries in underdeveloped countries would adversely affect the balance of payment of the latter. The Communist bloc may find itself in a similar position in the near future. It could easily be the case that some underdeveloped countries must raise their exports to the Communist bloc to such an extent, in order to repay Soviet credits, that imports under new loans will not balance payments. Exports made to repay old loans could thus become larger than imports under new loans. The underdeveloped countries would then quickly notice that the foreign aid of the Communist bloc leads to the same conditions as the shipments of Western private industry on long-term credits or as foreign investments. This would also demonstrate that the US policy of grants (gifts) is economically far more favorable for underdeveloped countries than the Soviet loan programs, particularly since these grants are made in addition to the credits of the various private and semi-governmental institutions.

The preceding statements should not lead to an underestimation of the foreign aid program of the Communist bloc. The course of these aid programs to date show the extent of the possibilities for the Communist bloc to meet the requirements of underdeveloped countries for economic and social development. But it also seems very important to point out that the Communist bloc gradually gets into a position that resembles that of the Western countries because of the former's intensification of relations with underdeveloped countries. It almost seems a natural law, which cannot be neutralized even by political and economic maneuvers, that there exist necessarily certain economic and political contrasts between highly developed industrial nations and economically underdeveloped agricultural countries. From the point of view of the underdeveloped countries, the USSR is not primarily the opponent of the Western industrial nations -- just as the conflict between communism and democracy does not occupy the forefront of the politics of underdeveloped countries -- but is seen in its position of an industrial country.

## The Latent Danger of Seduction by the Soviet System

### The Soviet Example

The Asian and also the African underdeveloped nations consider technical-economic relations with the Communist bloc under Soviet leadership not only as valuable because the USSR is today the second greatest industrial power in the world. Until a few years ago, the underdeveloped nations considered the Western industrial countries as their only model in striving for their own industrialization. Today there is a tendency in the African, Asiatic and Latin American countries to look upon the USSR also as an example for economic and social development efforts. With the exceptions of Japan, the USSR is the only highly industrialized country that a few decades ago was still an underdeveloped one. In 40 years, she developed from an underdeveloped agricultural country to an industrialized society, in which over half of the population is engaged in non-agricultural occupations. From the point of view of many underdeveloped countries, the USSR is, therefore, an example that it is fundamentally possible to develop within a few decades to the point where the emphasis of the economy has shifted from agriculture to industry. This concrete example serves the young intellectuals and politicians as the basis for their optimism and wishful thinking regarding industrialization. This wishful thinking is reinforced in the underdeveloped countries by the fact that practically all successes of the USSR can be traced back to industrialization which was carried out in a planned manner and often without considering short-term economic losses.

The USSR is seen as a model also because she carried out her industrialization without outside help. She has, furthermore, solved in the last 40 years those fundamental problems which are now faced by the underdeveloped countries. This applies particularly to the problem of land reform which assumes catastrophic proportions in most underdeveloped countries. Since the political and economic concepts of the West have no clear application to the problem of land reform and since land reform is for many underdeveloped countries the first step towards economic, social and political progress, it seems natural to study the land reform of the Communist countries and to use those procedures as models. A parallel between the present position of the underdeveloped countries and the position of the USSR 40 years ago is also seen in the fact that in contrast to all other industrial nations only the USSR systematically planned the economic and social development of the country. Since almost all underdeveloped countries today also plan comprehensively for a variety of reasons, the Soviet planning apparatus occupies a central position in the thinking of the leaders of underdeveloped nations.

But the attraction of the Soviet system does not lie only in the political and economic areas. The Soviet methods in the areas of education are also taken as a model in the eyes of the public in Asian countries and also among young intellectuals in Africa, as the author noticed repeatedly. The curriculum of the Soviet elementary educational system, the system of scholarships at the institutions for higher education, the systematic development of a more-and-more specialized body of teachers in technology and the natural sciences, and the free on-the-job training courses in agricultural, industrial and other installations -- all these procedures and methods could be adopted by many underdeveloped countries with only minor revisions. In view of the difficulties faced by underdeveloped countries, the Soviet system undoubtedly has some advantages over the Western educational systems, particularly since the USSR was able to gather considerable experience in her non-Russian areas with respect to typical problems (early leaving of school by girls and older boys, reluctance to enroll in natural-science courses, language problems, etc.) which often arise in similar form in underdeveloped areas. In addition, there is the problem that most underdeveloped countries will not be able to avoid using certain authoritarian methods if they are to push through compulsory education and have teachers for every village school. Thus, the USSR has not taken any action in the field of education, but it must be expected that the USSR will send education experts into underdeveloped areas during the next few years. Educators are already invited to the USSR for periods of study.

#### Different Starting Points in Underdeveloped Areas

If the USSR and other Communist countries are perceived as models in many underdeveloped countries, it does not follow that these perceptions rest upon a solid basis, such as study of Soviet problems. Rather, impressions and half-truths, which are sometimes particularly convincing, determine these attitudes. Even superficial study of the economic and social history of the USSR during the first half of the 20th Century would show that the USSR never faced, for instance, the very serious problem of overpopulation. The population of the USSR increased since 1913 by only 50 million, i.e., one third. The rates of population growth in underdeveloped areas are much higher. It is also forgotten that the USSR possessed considerable reserves for increasing agricultural production, that the areas of arable land in the Russia of prewar times were ten times as large per capita as the present amount of arable land in Egypt and that the entire food problem was, therefore, much smaller before the October Revolution than it is in most underdeveloped countries today. Thus, Russia produced three times as much grain per capita in 1913 than does India today. On such a basis, the USSR had a much

better chance to fulfill its industrialization program than has Egypt or India whose food problem is so serious that valuable foreign exchange must be spent constantly for the import of foodstuffs.

The industrial basis of the USSR was at that time also greater than the industrial basis in many underdeveloped countries today, such as India which has relatively far progressed. In most production areas, Russia produced in 1913 considerably more per capita than does India in 1956 (cf. Hoeffding, O. "The Central Economic Planning of the Soviet Union as a Model for the Underdeveloped Countries of Asia," in Osteuropa Wirtschaft, Stuttgart, December 1958, page 100). It may also have been important for the success of the USSR that Russia had reached already before the First World War a stage of development which made possible a dynamic rate of growth through the availability of high rates of savings. This stage has not been reached even remotely by any underdeveloped country.

When the underdeveloped countries take the USSR as a model for economic and social development, they forget also that even though the Soviet successes were reached through the planning of all economic and social processes, a powerful party and government apparatus stood behind the plan to guarantee its execution. The underdeveloped countries do have a five-year plan, a national planning committee and a development bank, but they do not possess an organization for the execution of these plans which would come even remotely close to corresponding institutions in the USSR. A condition for the success of the Soviet plans was the deliberately created system of ownership of the means of production. Only this allowed the political and economic apparatus to control precisely all developments and economic processes. These conditions are also not given in the underdeveloped countries. A resemblance between the conditions in the USSR and in the underdeveloped countries cannot be assumed simply because the underdeveloped countries also possess certain institutions such as a five-year plan. The success of planning rests upon an organization which is in a position to enforce the desired measures down to the lowest level of every village. The Western industrial countries would furnish the conditions for such central planning more easily than the underdeveloped countries whose administrative apparatus is still in the process of being developed. Even in underdeveloped countries which are governed by dictators, the influence of the government does not reach beyond the few large cities in the country.

But it seems to us to be most important that the attitude of the Russian people towards modern influences in the beginning of the Soviet development program was far more tolerant than is the case today in Asian and African countries. The history and religion of the Russian people may have been a greater hindrance to economic and social progress than historical factors in the background of the Western industrial nations, but in comparison to the conditions in

underdeveloped areas, the conditions in the USSR were by far more favorable. One example can demonstrate this: there were, for example, no holy cows in the USSR in the beginning of her economic development but these animals constitute an almost unsurpassable block to the reationalization and increase of agricultural production in India today. This example alone demonstrates the completely different and more favorable conditions for quick industrialization that existed in the USSR.

### Necessity for Compulsory Measures

Under present circumstances, one can hardly speak of an acute Communistic danger in most underdeveloped countries. The fact that the governments of the underdeveloped countries today are neither Communistic nor intend to work with Communistic methods should, however, not deceive us from recognizing the latent danger of a spreading of Communism in underdeveloped areas. But as little as the development policies of these countries can be described as Communistic, so are the development methods used so far also insufficient. The governments of underdeveloped countries have developed five-year plans and also opened a few institutions for the planning and financing of the goals to be reached. But the means used to reach the development goals are insufficient in all underdeveloped countries, particularly in India. In the UAR, where an authoritarian system governs, the beginnings of development policies are also most unsatisfactory. Thus, there is no agency in Egypt today to channel unemployed workers into the production process. In this insufficiency lies the real danger.

The Western countries have not been able so far to help the countries of Asia and Africa in the development of political and economic organizations which, although contrary to the principles of democracy, are unavoidable in the face of the economic and social requirements of the underdeveloped countries. On the contrary, every effort of the underdeveloped countries to develop such forms of organization arouses sharp criticism in the West on ideological grounds. Thus it is that economic and social development projects are not pressed forward with the tempo and to the extent required by the increasing impoverishment of the underdeveloped areas and the rapid progress made by Communist underdeveloped areas.

Thus, there is the long-term danger that underdeveloped countries will gradually adopt Soviet methods. This step may be taken by present governments or, after the removal of these, by newly formed ones. In view of the growing dissatisfaction particularly among the middle classes and of the insufficient development measures of formally democratic governments, Communism may find a rich soil in the future as a consequence of the insufficiency of the methods practiced today. This would produce the conditions for the gradual adoption of Soviet methods. The Communist bloc itself gains through

its growing foreign aid and intensified trade relations with individual underdeveloped countries an increasing basis for its operations. Soviet leadership has clearly recognized that the decision will be made on the field of ideology, on the basis of political-social principles of organization. The Soviet governmental system can be introduced into any underdeveloped country -- it is only a question of introducing the necessary methods of compulsion.

The West, on the other hand, still believes that it is sufficient to arrange the establishment of a Western democratic system in underdeveloped areas; a governmental system which cannot function in most underdeveloped areas because of the conditions prevailing there and which certainly cannot function in those areas in competition with Communism. Here lies the real danger: if the present governments cannot cope with the problem under the prevailing political and social conditions in underdeveloped areas, the solution of current problems will be sought in an imitation of Soviet methods. If this danger is to be met, the Western countries must develop new organizational forms jointly with the underdeveloped countries to enable these countries to utilize their unused manpower (for example, through a national work-service corps for persons of certain age groups) without applying compulsory methods to the extent customary in the Communist countries. This cannot be done without any compulsory methods at all but it is important that such compulsory methods are not applied under Communist emblems. The close cooperation between the US and the governments of some underdeveloped countries, which maintain a democratic system of government only in a formal sense, gives hope that the Western countries will not only tolerate but support with all available means those governments in underdeveloped areas which are not completely democratic but also not Communistic in form.

#### The Chinese Example

The attractiveness of Red China for various underdeveloped countries, particularly those that are overpopulated, will also increase with the growing economic development of the former even though it is presently still interrupted by repeated setbacks. China is today practically as underdeveloped in an economic sense as other underdeveloped countries in Asia and Africa. But in most production areas the conditions for a rapid growth of productivity are today already available, e.g., in agriculture through the completion of land reform, through the building of irrigation installations on a large scale and the now almost completed penetration of the whole country by the government and party apparatus. Nevertheless, the stage of underdevelopment has not been completely surpassed. China could be a better example for underdeveloped areas today than the USSR for the reasons given above. In contrast to the USSR, China belongs to the colored world and it began a comprehensive development



program only a decade ago. China also possesses the fundamental problem of most underdeveloped areas: overpopulation. In contrast to the USSR, China could also be a better example for some Asian countries because it possessed historical, social and political structures similar to those of other South and Southeast Asia countries. The traditional background of East and Southeast Asia explains also why collectivistic forms are often thought to be better adapted to Asiatic conditions than the individualistic forms of life in the West, at least by the leaders of those Asian nations. China accomplished the transition from the traditional to the collectivistic forms of life within one decade. The tremendous material progress of China -- and this is also clear to the anti-communists in Asia -- is largely attributed to the Communist system. If the quasi-democratic and quasi-dictatorial solutions should fail in the underdeveloped countries in Asia, the attractiveness of the Chinese methods will grow. The latent danger of seduction through the Communist system is probably greater in the case of China than in the case of the USSR.

This applies particularly to the efforts of China with respect to the establishment of collectives, which may horrify many people, but nevertheless point up a way towards the utilization of the resources of the underdeveloped country and of the unused pools of manpower. The possibility to solve the basic problems through the utilization of the abundantly available production factor "work" has not been seen as yet by the leadership, let alone by the general public in underdeveloped areas. But it is increasingly recognized that China and India are engaged in a contest in this respect. From the point of view of method, the following are in competition: the democratic community development work in India and the totalitarian collectives of China. This contest between India and China will decide the path to be followed by the overpopulated and underdeveloped countries in the solution of the tremendous organizational task to mobilize the unused production reserves, particularly the pools of unused manpower.

The Chinese are probably also in a better position than the USSR to modify the Communist ideology in order to adapt it better to the conditions prevailing in underdeveloped areas. This is already done by the Chinese in the form that the contrast between capital and labor, between capitalists and proletarians is not emphasized, rather the point of departure for Communist ideology in underdeveloped countries is the contrast between landowner and farm worker and, internationally, between industrial and agricultural countries. The attractiveness to the growing educated classes in underdeveloped countries of a Communistic ideology extensively adapted to conditions in underdeveloped areas cannot be underestimated in the long run. In this lies probably the real danger of seduction through the Chinese system. The tremendous productive power of the organized Chinese masses, whose material successes will be more and more ob-

vious to the extent that the other underdeveloped countries remain behind, will add to the attractiveness of the system.

#### Communism or Democracy: An Unsuitable Alternative

The preceding, in many respects unsatisfactory, discussion of the future of the relations between the Communist bloc and the underdeveloped areas was to emphasize also that the main struggle will not be in the field of foreign aid in the narrower sense. The real problem is not whether the West or the Communist bloc grants one billion more or less of dollars or rubles, but it is decisive to solve the economic problem of where the underdeveloped countries can dispose of their products in exchange for the investment capital needed by these countries. Economically, the emphasis of these relations lies, therefore, with the development of foreign trade. To be sure, there is fundamentally nothing of a negative nature to be seen in such a development. If the economic relations of the underdeveloped countries to the Communist bloc reduce the difficulties of the former, such a development is to be welcomed by all. Furthermore, the economic competition between the Communist bloc and the West will probably also be fruitful for the Western industrial countries.

Far more serious for the future of the world is the competition of politico-social ideologies. In this contest, the Communist bloc has some advantages in view of the conditions prevailing in underdeveloped areas. On the other hand, the West still clings to the conception that this contest must bring about the establishment of Western governmental principles in underdeveloped areas. Western foreign aid is seen as the most important means of achieving this end. This somewhat provincial conception which wants to establish in other countries the principles seen as desirable in one's own country and which sees as the only alternative to Communism Western democracy is not geared to the core of the problems found in underdeveloped areas. Asia and Africa must develop their own forms of social organization which will take account of historical conditions as well as of the prevailing politico-economic stage of development. If the Western countries help the underdeveloped nations to find their own economic, social and political systems, if they can free themselves from the slogan: here democracy -- there Communism, the contest in the ideological sphere may not yet be lost. If Soviet ideology can look upon the present nationalistic-bourgeois forms of government in underdeveloped areas as a stage on the way to Communism, then the Western democracies can let themselves be guided in their policies with the same justification by the thought that non-Communist governments with quasi-dictatorial characters are also a necessary transition to democratic forms of government and that the impoverishment in underdeveloped areas cannot be surmounted without the application of certain compulsory methods.

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